

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Niles	County Berrien
Fiscal Year End 09/30/2006	Opinion Date 12/08/2006	Date Audit Report Submitted to State March 13, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

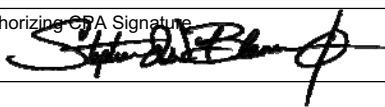
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe) Single Audit	<input checked="" type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 517.787.6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49204
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801



CITY OF NILES, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2006



REHMANN ROBSON

Certified Public Accountants

CITY OF NILES

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-13
Basic Financial Statements:	
Governmental-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15-16
Fund Financial Statements:	
Balance Sheet – Governmental Funds	17
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	21
Statement of Net Assets – Proprietary Funds	22
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	23
Statement of Cash Flows – Proprietary Funds	24-25
Statement of Net Assets – Fiduciary Funds	26
Statement of Changes in Net Assets – Fiduciary Funds	27
Combining Statement of Net Assets – Component Units	28
Combining Statement of Activities – Component Units	29
Notes to Financial Statements	30-54
Combining and Individual Fund Statements and Schedules:	
General Fund:	
Combining Schedule of Balance Sheet Accounts – By Activity	55
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – By Activity	56
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – By Activity	57-60
Detailed Schedule of Expenditures – Budget and Actual – (Corporate Account)	61-62
Nonmajor Governmental Funds:	
Combining Balance Sheet	63-65
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	66-68
Nonmajor Special Revenue Funds:	
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	69-72

CITY OF NILES

TABLE OF CONTENTS (Concluded)

	<u>PAGE</u>
Nonmajor Enterprise Funds:	
Combining Statement of Net Assets	73
Combining Statement Revenues, Expenses and Changes in Fund Net Assets	74
Combining Statement of Cash Flows	75
Agency Funds:	
Statement of Fiduciary Assets and Liabilities	76
Downtown Development Authority Component Unit:	
Statement of Net Assets/Governmental Fund Balance Sheet	77
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes In Fund Balance	78

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

INDEPENDENT AUDITORS' REPORT

December 8, 2006

Members of the City Council
City Niles, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Niles, Michigan**, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Niles management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Niles, Michigan, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2006, on our consideration of the City of Niles, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, in a separately issued single audit report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Niles basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large, prominent 'L' and 'J'.

CITY OF NILES, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Niles' (the "City") discussion and analysis is designed to (a) assist the reader in focusing on the significant financial issues, (b) provide an overview of the financial activities for the fiscal year ended September 30, 2006, (c) identify changes in the City's financial position (its ability to address the next year and subsequent year challenges), (d) identify any material deviations from the approved budget, and (e) identify individual fund issues or concerns. Since the management's discussion and analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and known facts, readers are encouraged to consider the information presented here in conjunction with the City's basic financial statements, which will follow this section.

Financial Highlights

- Assets of the City exceeded its liabilities at the end of the fiscal year by \$32,839,539 (net assets), an increase of \$449,174 from the previous year. Component unit (Niles Housing Commission) reported net assets of \$2,488,610, an increase of \$89,404 from the previous year. The Downtown Development Authority was added by the auditors as a component unit this year. Please refer to their comment 1-A in the *Notes to Financial Statements*.
- Of the \$32,839,539 reported in net assets, \$16,885,083 may be used to meet the ongoing obligations to citizens and creditors (unrestricted net assets).
- At the end of the fiscal year, the City's governmental funds reported total fund equity of \$5,214,556, an increase of \$101,217 from the previous year. Of this fund equity, approximately 91% or \$4,746,775 is available for spending at the government's discretion (undesignated fund balance).
- At the end of the current fiscal year, the unreserved undesignated fund balance for the General Fund was \$2,720,920 or 34% of the total General Fund expenditures of \$8,010,555.
- The proprietary funds reported net assets at September 30, 2006 of \$21,280,514, an increase of \$769,718 from the previous year.
- The City's total debt as of fiscal year end was \$7,496,134, a decrease of \$372,289 or 4.7% from the previous year.

Overview of the Financial Statements

This discussion and analysis is an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements, and 3) notes to the financial statements. The basic financial statement's focus is on both the City as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow users to address relevant questions, broaden a basis for comparison (interperiod or intergovernmental) and enhance the City's accountability. This report also contains supplementary information in addition to the basic financial statements which further explains and supports the information presented in these statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances. The Statement of Net Assets and the Statement of Activities are designed to be corporate-like in that all the governmental and business-type activities are consolidated into columns which add to a total for the Primary Government. These statements should help the reader to answer the question: Is the City, as a whole, better or worse off as a result of this year's activities. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are recognized regardless of when cash is received or paid.

The focus of the Statement of Net Assets is designed to be similar to the bottom line results for the City and its governmental and business-type activities. This statement combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations (total economic resources). This statement presents all of the City's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases and decreases in net assets may indicate whether the City's financial position is improving or deteriorating. However, in order to assess the overall health of the City, non-financial factors such as the City's property tax base and condition of the City's infrastructure may also need to be considered.

The Statement of Activities is focused on both the gross and net cost of the various activities (governmental, business-type, and component unit) which are supported by the City's general tax and other revenues. This presentation is intended to summarize and simplify the user's analysis of the cost of the various governmental services and/or the subsidy to various business-type activities and/or component units. This statement shows how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying events occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both statements report three activities:

1. *Governmental Activities:* Most of the City's basic services (i.e., police, fire, streets, parks, etc.) are reported under this category. Taxes and intergovernmental revenues generally fund these services. The City's governmental activities include general government, public safety, highways and streets, transportation, sanitation and sewers, culture and recreation, conservation, and community development.
2. *Business-type Activities:* The City charges fees to customers to help cover all or most of the cost of certain services it provides. The City operates six business-type activities that reflect private sector type operations: The Niles Utilities Department (Electric, Water, and Sewer services), Silverbrook Cemetery, Jerry Tyler Memorial Airport, and Plym Park Golf Course.
3. *Discretely Presented Component Units:* Component units are legally separate organizations over which the City (the City Council acting as a group) can exercise influence and/or for which the City is financially accountable. The City of Niles is reporting two component units for fiscal year 2006: the Niles Housing Commission and the Downtown Development Authority. Financial information for these component units are presented separately from that of the primary government. The focus of the statements is clearly on the primary government; however, the presentation allows the user to address the relative relationship with the component units.

Fund Financial Statements

Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. These statements provide more detailed information about the City's most significant funds (Major Funds), not the City as a whole. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to maintain control over resources that have been segregated for specific activities or objectives. In addition to major funds, the City presents individual fund data for nonmajor funds in the supplementary information section. All the funds of the City can be divided into three categories: governmental, proprietary, and fiduciary. Each category uses different accounting approaches.

Governmental Funds:

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental fund statements are presented on a modified accrual basis, which focuses on the near-term sources and uses of available resources. This is the manner in which the budget is typically developed. The City establishes funds for various purposes; and the Fund Financial Statements allow the demonstration of sources and uses and/or budgetary compliance associated therewith. Governmental funds include the general fund, special revenue funds, capital project funds, and debt service funds.

The focus of governmental funds (current financial resources) is narrower than that of the government-wide financial statements (total economic resources). Therefore, the reader may better understand the long-term impact of the City's near-term financing decisions by comparing information presented for governmental funds with the information presented for the governmental activities in the government-wide financial statements. Both the governmental funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison.

Proprietary Funds:

Proprietary funds are used to account for services provided by the City where the City charges customers (whether external or internal) for the services it provides. These funds use accrual accounting; the same method used by private sector businesses. The City maintains one type of proprietary fund: enterprise. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the

Utility Department services (electric, water, and sewer), Silverbrook Cemetery, Jerry Tyler Memorial Airport, and Plym Park Golf Course.

Fiduciary Funds:

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. While these funds represent trust responsibilities of the City, these assets are restricted in purpose and do not represent discretionary assets of the City. Therefore, these assets are not reflected in the government-wide financial statements. The City acts as a trustee or fiduciary for its employee pension plan. It is a trustee/agent for the other governmental units for which it collects tax payments. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These funds are reported using accrual accounting.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Additional Required Supplementary Information

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes budgetary comparison schedules.

Nonmajor Government Funds

Following the required supplementary information is combining financial statements for nonmajor governmental funds. These funds are added together and presented in a single column in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements. This section also includes budgetary comparison schedules for these funds.

Other Supplementary Information

Other supplementary information includes a combining statement of Changes in Assets and Liabilities for all agency funds, general obligation bonds principal and interest requirements, along with detailed schedules for the Dial-A-Ride Transportation Fund.

Financial Analysis of the Government as a Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the City's case, assets exceeded its liabilities at the end of the fiscal year by \$32,839,539. However, a major portion of the City's net assets (81%) represents its investment in capital assets (e.g., land, buildings, equipment, electric, water and sewer plant and equipment). The City uses these capital assets to provide essential services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources because the capital assets themselves cannot be used to liquidate these liabilities. Not capitalized at this time is the City's total infrastructure, reporting of which is in transition and will be reported in future reports as the data compilation is completed.

City of Niles Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2006	2005	2006	2005	2006
Current and other assets	\$ 8,784,221	\$ 8,556,226	\$ 9,588,204	\$ 9,406,989	\$ 18,372,425	\$ 17,963,215
Capital assets, net of accumulated depreciation	8,365,762	7,774,196	17,819,212	18,955,248	26,184,974	26,729,444
Total Assets	17,149,983	16,330,422	27,407,416	28,362,237	44,557,399	44,692,659
Long-term liabilities outstanding	1,636,242	1,450,355	5,765,345	6,045,779	7,401,587	7,496,134
Other liabilities	3,634,172	3,321,042	1,131,275	1,035,944	4,765,447	4,356,986
Total liabilities	5,270,414	4,771,397	6,896,620	7,081,723	12,167,034	11,853,120
Net Assets:						
Invested in capital, net of related debt	8,353,262	-	17,936,640	13,376,305	26,289,902	13,376,305
Restricted	2,407,874	-	2,169,745	2,578,151	4,577,619	2,578,151
Unrestricted	1,118,433	11,559,025	404,411	5,326,058	1,522,844	16,885,083
Total Net Assets	11,879,569	11,559,025	20,510,796	21,280,514	32,390,365	32,839,539
Restricted net assets include the following:						
Equipment replacement (sewer)	2,169,745	2,578,151				
Highways and streets	316,295	-				
Community development	944,338	-				
Transportation	330,564	-				
Other	816,677	-				
	\$ 4,577,619	\$ 2,578,151				

Except for the \$2,578,151 of restricted net assets, the City may use the remaining balance of unrestricted net assets of \$16,885,083 (51%) to meet its ongoing obligations to citizens and creditors. Further, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

City of Niles' Change in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2006	2005	2006	2004	2006
Revenues:						
Program Revenues:						
Charges for services	\$ 2,582,901	\$ 925,667	\$13,446,440	\$ 14,329,770	\$ 16,029,341	\$ 15,255,437
Operating grants	1,211,257	1,734,591	-	1,348,264	1,211,257	3,082,855
Capital grants and contributions	883,853	35,221	181,410	15,435	1,065,263	50,656
General Revenues:					-	-
Taxes	3,130,177	3,716,480	-	-	3,130,177	3,716,480
State-shared revenues	1,486,431	1,466,655	-	-	1,486,431	1,466,655
Investment earnings	113,021	139,859	244,489	319,168	357,510	459,027
Grants & contributions not restricted to specific programs	-	64,814	-	-	-	64,814
Other	231,656	-	68,543	2,180	300,199	2,180
Transfers - internal activities	1,344,807	182,308	57,897	(182,308)	1,402,704	-
Total Revenues	<u>10,984,103</u>	<u>8,265,595</u>	<u>13,998,779</u>	<u>15,832,509</u>	<u>24,982,882</u>	<u>24,098,104</u>
Expenses:						
General government	2,989,262	1,765,616	-	-	2,989,262	1,765,616
Public safety	3,461,983	3,562,934	-	-	3,461,983	3,562,934
Highway and streets	2,045,873	1,312,216	-	-	2,045,873	1,312,216
Transportation	789,317	792,349	-	-	789,317	792,349
Sanitation and sewers	221,093	295,196	-	-	221,093	295,196
Culture and recreation	256,590	281,564	-	-	256,590	281,564
Conservation	83,002	-	-	-	83,002	-
Community development	1,206,125	685,576	-	-	1,206,125	685,576
Interest on long-term debt	-	47,766	-	-	-	47,766
Other	53,492	-	-	-	53,492	-
Electric	-	-	9,504,283	10,308,980	9,504,283	10,308,980
Water	-	-	1,616,303	1,778,794	1,616,303	1,778,794
Sewage	-	-	2,274,951	2,058,207	2,274,951	2,058,207
Airport	-	-	39,391	43,097	39,391	43,097
Cemetery	-	-	147,360	155,216	147,360	155,216
Golf	-	-	206,492	192,112	206,492	192,112
Total Expenses	<u>11,106,737</u>	<u>8,743,217</u>	<u>13,788,780</u>	<u>14,536,406</u>	<u>24,895,517</u>	<u>23,279,623</u>
Increase in Net Assets	(122,634)	(477,622)	209,999	1,296,103	87,365	818,481
Net Assets, October 1, 2004 & 2005	<u>12,002,203</u>	<u>12,031,589</u>	<u>20,300,797</u>	<u>19,984,411</u>	<u>32,303,000</u>	<u>32,016,000</u>
Net Assets, September 30, 2005 & 2006	<u>\$11,879,569</u>	<u>\$ 11,553,967</u>	<u>\$20,510,796</u>	<u>\$ 21,280,514</u>	<u>\$ 32,390,365</u>	<u>\$ 32,834,481</u>

Governmental Activities:

Governmental activities reduced the City's net assets by \$477,622, a reduction of 3.97% from October 1, 2005.

General Fund Revenue - Actual

	2005	Percent	2006	Percent	Variance	
					Dollar	Percent
Taxes	\$ 2,951,968	34.23%	\$ 3,733,013	44.39%	\$ 781,045	26.46%
Intergovernmental revenue						
Federal	33,022	0.38%	3,050	0.04%	(29,972)	-90.76%
State	1,558,845	18.08%	1,491,932	17.74%	(66,913)	-4.29%
	1,591,867	18.46%	1,494,982	17.78%	(96,885)	-1.12%
Investment earnings	156,747	1.82%	139,859	1.66%	(16,888)	-10.77%
Fines and forfeitures	53,036	0.62%	68,814	0.82%	15,778	29.75%
Licenses and permits	28,342	0.33%	18,345	0.22%	(9,997)	-35.27%
Charges for services	540,319	6.27%	1,012,642	12.04%	472,323	87.42%
Contributions (Insurance Fund)	1,497,376	17.36%	1,515,958	18.03%	18,582	1.24%
Other	96,443	1.12%	40,314	0.48%	(56,129)	-58.20%
	2,372,263	27.51%	2,795,932	33.25%	423,669	4.91%
Proceeds from sale of assets	83,584	0.00%	42,136	0.50%	(41,448)	-49.59%
Operating transfers in	1,623,703	18.83%	343,933	4.09%	(1,279,770)	-78.82%
Total Revenue	\$ 8,623,385	100.00%	\$ 8,409,996	100.00%	\$ (213,389)	-2.47%

General Fund revenues declined by \$213,389 or 2.47%. Some of the key General Fund revenue factors of this reduction are as follows:

- State-shared revenue of \$1,491,932 decreased by \$66,913 or 4.29%. This line item reflects the following:

Sales tax receipts (down by \$19,776 or 1.33% from last year)	\$1,466,655
Telecommunication Rights-of-Way revenue of \$35,832 was deferred until it is matched by state-qualified expenditures.	\$ 0
- Contribution revenue of \$1,515,958, representing group insurance receipts from the city and employee participants, increased by \$18,582 or 1% from last year.
- General Fund InterFund revenue receipts were down by \$1,279,770 or 79%. The decrease in InterFund transfers is primarily attributable to:
 - A decrease of \$68,287 from the Industrial Park Fund to cover construction payments for the new Fire Station.
 - Auditor adjustment reclassifying \$1,314,580 from Transfer Revenue to Tax revenue and Charges for Services revenue.

Expenditures:

General Fund Expenditures - Actual

	2005	Percent	2006	Percent	Variance	
					Dollar	Percent
General Government						
Council	\$ 135,783	1.60%	\$ 146,741	1.75%	\$ 10,958	8.07%
City Administrator's office	156,266	1.84%	122,963	1.47%	(33,303)	-21.31%
Legal	66,405	0.78%	52,003	0.62%	(14,402)	-21.69%
City Clerk's office	85,501	1.01%	82,135	0.98%	(3,366)	-3.94%
City Assessor's office	83,440	0.98%	94,346	1.13%	10,906	13.07%
City Treasurer's office	123,265	1.45%	129,178	1.54%	5,913	4.80%
Management services	211,566	2.49%	235,382	2.81%	23,816	11.26%
Building maintenance	325,023	3.83%	335,972	4.01%	10,949	3.37%
Property and liability insurance	154,939	1.83%	147,514	1.76%	(7,425)	-4.79%
General contingency	10,569	0.12%	-	0.00%	(10,569)	-100.00%
Insurance Fund (Self-insured medical)	1,601,122	18.87%	1,701,275	20.30%	100,153	6.26%
Miscellaneous	51,059		7,496	0.09%	(43,563)	100.00%
	<u>3,004,938</u>	<u>35.41%</u>	<u>3,055,005</u>	<u>36.44%</u>	<u>50,067</u>	<u>1.67%</u>
Public Safety						
Police Department	2,261,048	26.64%	2,381,014	28.40%	119,966	5.31%
Fire Department	1,158,799	13.66%	1,085,694	12.95%	(73,105)	-6.31%
Emergency operations center	4,831	0.06%	2,436	0.03%	(2,395)	-49.58%
	<u>3,424,678</u>	<u>40.36%</u>	<u>3,469,144</u>	<u>41.38%</u>	<u>44,466</u>	<u>1.30%</u>
Highways and Streets	980,275	11.55%	988,098	11.79%	7,823	0.80%
Community Development and Planning	91,434	1.08%	78,227	0.93%	(13,207)	-14.44%
Culture and Recreation						
Museum	74,706	0.88%	78,340	0.93%	3,634	4.86%
Parks and Recreation Department	115,957	1.37%	131,962	1.57%	16,005	13.80%
	<u>190,663</u>	<u>2.25%</u>	<u>210,302</u>	<u>2.51%</u>	<u>19,639</u>	<u>10.30%</u>
Public Works						
Tree trimming	52,613	0.62%	47,018	0.56%	(5,595)	-10.63%
Tree removal	30,389	0.36%	34,222	0.41%	3,833	12.61%
Sanitation	52,685	0.62%	44,565	0.53%	(8,120)	-15.41%
	<u>135,687</u>	<u>1.60%</u>	<u>125,805</u>	<u>1.50%</u>	<u>(9,882)</u>	<u>-7.28%</u>
Debt service	97,175	1.15%	83,974	1.00%	(13,201)	-13.58%
Operating transfers out	561,202	6.61%	372,058	4.44%	(189,144)	-33.70%
Total Expenditures	<u>\$8,486,052</u>	<u>100.00%</u>	<u>\$8,382,613</u>	<u>100.00%</u>	<u>\$ (103,439)</u>	<u>-1.22%</u>

Key General Fund expenditure factors are as follows:

- Employee Insurance Costs – because the City has a self-funded Plan an increase in paid claims required additional General Fund contributions to the Insurance Fund of \$49,668 over the budgeted expenditures of \$1,375,427 for a total of \$1,425,095.
- Transfers Out – declined by \$189,144 from last year.
A decline of \$40,000 to the CHIP Fund 282 to fund the facade removal expense under the downtown streetscape project.
\$67,210 less than last year representing a transfer to the Local Street Fund for expenditures funded by Telecommunications Right-of-Way revenue (see General Fund Revenue above).

Business-Type Activities:

Revenue:

Business-type activities increased the City's net assets by \$1,296,103 or 6.38% from last October 1, 2005. Key factors of this increase are as follows:

- Electric Fund – operating revenues of \$10,016,192 increased by \$520,576 or 5%. Net earnings increased \$87,861 or 82% to \$194,732. Contributing to the increase in operating revenue was a 9% rate increase effective July 2006.
- Water Fund – operating revenues of \$1,881,900 increased by \$151,746 or 9% from last year. Net earnings totaled \$1,082,258, an increase of \$862,038 (including capital contributions of \$898,912) or 391% from last year. A 7% water rate increase was effective April 2006.
- Sewage Fund – operating revenues of \$2,148,283 increased by \$216,304 or 11% from last year. Net earnings totaled \$73,038, an increase of \$17,318 or 31% from last year.

Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported combined fund equity of \$5,214,556. Of this total amount, \$4,746,775 (91%) was undesignated fund balance, which is available for appropriations for the general purpose of the funds.

The remainder of the fund balance is reserved and is not available for new spending because it has already been dedicated for various commitments.

General Fund

The General Fund is the chief operating fund of the City. As the end of the current fiscal year, unreserved undesignated fund balance was \$2,720,920, an increase of \$786,695 from 2005, and the designated fund balance was \$0, a decrease of \$534,819 from 2005. Total fund balance increased and exceeded the budget by \$27,383 during the fiscal year. Specific identification of various revenue and expenditure items may be referenced on pages 8-11.

Capital Assets and Debt Administration

Capital Assets:

The City investment in capital assets for its governmental and business-type activities as of September 30, 2006 amounts to \$26,729,444 (net of accumulated depreciation). This investment includes a broad range of assets which are detailed below. The total decrease in the City's net investment in capital assets for the current fiscal year was approximately \$565,970 or 7% for governmental activities and an approximately \$1,136,036 increase or 6% for business-type activities. As reported on page 3 above, not fully capitalized at this time are the total governmental infrastructure assets (public domain assets such as roads, bridges, curbs and gutters, streets and sidewalks), reporting of which is in transition and will be reported in future reports as the data compilation is completed. No governmental infrastructure assets were capitalized during the current year.

Net Capital Assets at Year End
(Net of depreciation - in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2006	2005	2005	2005	2005
Capital assets not depreciated:						
Land	\$ 2,319	\$ 2,088	\$ 503	\$ 503	\$ 2,822	\$ 2,591
Construction in progress			3,796	95	3,796	95
Capital assets being depreciated:						
Improvements, other than buildings	446	423	177	155	623	578
Buildings	2,694	2,538	3,450	6,665	6,144	9,203
Machinery, Fixtures & Equipment	1,050	988	546	478	1,596	1,466
Vehicles	1,629	1,543	312	259	1,941	1,802
Infrastructure	203	195	9,035	10,800	9,238	10,995
Net Capital Assets	\$ 8,341	\$ 7,775	\$ 17,819	\$ 18,955	\$ 26,160	\$ 26,730

This year's major capital expenditures included:

Governmental Activities:

- Land Purchases
 - Reflects decreased cost for the sale of the land at Main and Fifth Streets to Chemical Bank - \$85,500
 - Net purchase cost of abandoned railroad property from tax sale by Berrien County Treasurer - \$9,290. Offset by sale of twelve split parcels to adjoining property owners - \$6,967.
- Management Services
 - Color copier at City Hall - \$17,473
 - City share of copier for Finance Department - \$2,347
- Police Department:
 - New computer equipment - \$20,440
 - 2 new Harley Davidson motorcycles - \$25,500
 - 2 vehicles (one used; one new) - \$25,379
 - 1 GEM electric motorized street car - \$6,263
- Street Department:
 - New Bobcat - \$36,658
 - New 2006 Dump truck - \$69,091
 - New 2006 Ford F150 Pick-Up - \$12,991
- Fire Department
 - 1999 Freightliner - \$43,358 (purchased during 1999)
- Dial-a-Ride Transportation (DART) Fund:
 - Land improvements - \$1,517
 - Building improvements - \$1,275
 - Office equipment - \$19,244
 - Outside equipment - \$3,416
 - 1991 Chevrolet P/U - \$11,181 (purchased during 1991)
 - 1996 Trolley - \$236,022 (purchased during 1996)

Business-Type Activities:

- Electric Fund – additions totaled \$392,758. Significant expenditures are described below.
Distribution Plant:
 - Additions to poles, towers, and fixtures - \$30,988
 - Upgrades to commercial overhead system - \$52,851
 - Underground conduit and vaults, downtown - \$62,178
 - Underground conduit and vaults, residential - \$9,248
 - Underground conduit and vaults, commercial - \$3,431
 - Underground conductors and devices, residential - \$34,489
 - Underground conductors and devices, commercial - \$14,595
 - Transformer upgrades and installation - \$92,881
 - New meter purchases - \$37,659
 - Residential overhead street and dusk to dawn lighting - \$17,915
 - Tools and shop equipment - \$3,721
- WasteWater Fund – expenditures totaled \$33,770
 - Machinery and equipment - \$33,067
- Water Fund – current year expenditures totaled \$5,487,584
 - Water treatment plant - \$3,429,716
 - Chlorine equipment - \$8,516
 - Fifth Street elevated water tank improvements - \$5,600
 - Bertrand Crossing elevated water tank - \$618,340
 - Bertrand Crossing well house - \$76,811
 - Eastside booster station - \$10,409
 - Water mains and services - \$1,328,376
 - New meter purchases - \$8,195

Long-Term Debt

At the end of the fiscal year, the City had total long-term debt outstanding of \$7,496,134. Of this amount \$475,000 in General Obligation Bonds relates to the acquisition and construction of the addition to the existing Niles District Library facility by the Building Authority. The City has a lease with the Building Authority to pay rental equal to the sums necessary to retire the Building Authority's bonds which are limited tax full faith and credit general obligations of the City. \$5,555,000 relates to the City of Niles Limited Tax General Obligation Bonds, Series 2004, for water infrastructure improvements. These improvements consist of a water filtration plant, a new water tower, and a booster station for a new intermediate pressure district. The \$23,943 amount of unamortized bond premiums and the \$426,908 amount of capital leases is secured by the assets purchased.

Other long-term obligations totaling \$1,015,283 represent accrued compensated absences and life insurance benefits. As noted in Note 7 to the basic financial statements it is anticipated that General Fund revenues for civil city employees and the cash reserves of the Utility Department Funds for utility employees will be used to liquidate accrued vacation, sick pay, and retiree insurance benefits.

Outstanding Debt at Year End
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2006	2005	2006	2005	2006
General obligation bonds	\$ 505,000	\$ 475,000	\$ 5,740,000	\$ 5,555,000	\$ 6,245,000	\$ 6,030,000
Unamortized bond premiums	-	-	25,345	23,943	25,345	23,943
Capital lease payable	486,786	426,908			486,786	426,908
Other liabilities:						
Accrued vacation and sick pay	624,456	528,447	466,836	466,836	1,091,292	995,283
Retiree life insurance benefit	20,000	20,000	-	-	20,000	20,000
Long-Term Debt	<u>\$ 1,636,242</u>	<u>\$ 1,450,355</u>	<u>\$ 6,232,181</u>	<u>\$ 6,045,779</u>	<u>\$ 7,868,423</u>	<u>\$ 7,496,134</u>

Economic Condition and Outlook

The City continues to struggle with declining state revenue sharing receipts over the last several years while attempting to provide the same level of service at continually increasing costs like higher gasoline prices, natural gas costs, and increased employee medical claims. The result will continue to be a bare bones budget. If the balanced budget is realized for FY2007, the City's *unreserved undesignated* fund balance will decline to \$2,541,958 from \$2,720,920 or 36.9% of General Fund revenues.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances to its citizens, customers, investors, and creditors and to demonstrate the City's accountability for the money it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to the Finance Director/City Treasurer, City of Niles Finance Office, 322 East Main Street, P. O. Box 217, Niles, MI 49120-0217

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF NILES, MICHIGAN

Statement of Net Assets

September 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 3,703,560	\$ 3,788,479	\$ 7,492,039	\$ 9,057
Investments	3,348,389	1,000,000	4,348,389	258,092
Receivables	1,472,361	1,299,243	2,771,604	18,844
Internal balances	31,916	(31,916)	-	-
Restricted cash and cash equivalents	-	2,578,151	2,578,151	-
Prepaid items and other assets	-	773,032	773,032	7,112
Capital assets not being depreciated	2,088,110	599,265	2,687,375	420,117
Capital assets being depreciated, net	5,686,086	18,355,983	24,042,069	1,924,961
Total assets	<u>16,330,422</u>	<u>28,362,237</u>	<u>44,692,659</u>	<u>2,638,183</u>
Liabilities				
Accounts payable and accrued liabilities	361,224	1,035,944	1,397,168	117,136
Unearned revenue	2,964,876	-	2,964,876	-
Long-term debt:				
Due within one year	93,397	254,044	347,441	-
Due in more than one year	1,356,958	5,791,735	7,148,693	10,470
Total liabilities	<u>4,776,455</u>	<u>7,081,723</u>	<u>11,858,178</u>	<u>127,606</u>
Net assets				
Invested in capital assets, net of related debt	6,872,288	13,376,305	20,248,593	2,345,078
Restricted for:				
Capital projects	178,871	-	178,871	-
Cemetery perpetual care	793,747	-	793,747	-
Self-insurance	282,949	-	282,949	-
State mandated programs	1,521,018	-	1,521,018	-
Equipment replacement	-	2,578,151	2,578,151	-
Unrestricted	1,905,094	5,326,058	7,231,152	165,499
Total net assets	<u>\$ 11,553,967</u>	<u>\$ 21,280,514</u>	<u>\$ 32,834,481</u>	<u>\$ 2,510,577</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NILES, MICHIGAN
Statement of Activities
For the Year Ended September 30, 2006

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Governmental activities:					
General government	\$ 1,765,616	\$ 524,727	\$ 51,719	\$ 6,283	\$ (1,182,887)
Public safety	3,562,934	68,881	3,059	-	(3,490,994)
Public works	295,196	704	2,140	-	(292,352)
Highways and streets	1,312,216	74,794	801,417	-	(436,005)
Transportation	792,349	98,410	446,707	28,938	(218,294)
Community development	685,576	104,481	429,549	-	(151,546)
Recreation and culture	281,564	-	-	-	(281,564)
Interest on long-term debt	47,766	53,670	-	-	5,904
Total governmental activities	<u>8,743,217</u>	<u>925,667</u>	<u>1,734,591</u>	<u>35,221</u>	<u>(6,047,738)</u>
Business-type activities:					
Electric	10,308,980	10,016,192	333,429	-	40,641
Sewer	2,058,207	2,148,283	89,496	-	179,572
Water	1,778,794	1,881,900	925,339	15,435	1,043,880
Other business-type activities	390,425	283,395	-	-	(107,030)
Total business-type activities	<u>14,536,406</u>	<u>14,329,770</u>	<u>1,348,264</u>	<u>15,435</u>	<u>1,157,063</u>
Total primary government	<u>\$ 23,279,623</u>	<u>\$ 15,255,437</u>	<u>\$ 3,082,855</u>	<u>\$ 50,656</u>	<u>\$ (4,890,675)</u>
Component units					
Downtown Development Authority	\$ 125,757	\$ -	\$ -	\$ -	\$ (125,757)
Housing Commission	<u>1,008,616</u>	<u>426,853</u>	<u>345,496</u>	<u>298,726</u>	<u>62,459</u>
	<u>\$ 1,134,373</u>	<u>\$ 426,853</u>	<u>\$ 345,496</u>	<u>\$ 298,726</u>	<u>\$ (63,298)</u>

continued...

CITY OF NILES, MICHIGAN
Statement of Activities (Concluded)
For the Year Ended September 30, 2006

	Governmental Activities	Business-type Activities	Total	Component Units
Changes in net assets				
Net (expense) revenue	\$ (6,047,738)	\$ 1,157,063	\$ (4,890,675)	\$ (63,298)
General revenues:				
Property taxes	3,716,480	-	3,716,480	75,985
State revenue sharing	1,466,655	-	1,466,655	-
Grants and contributions not restricted to specific programs	64,814	-	64,814	34,069
Unrestricted investment earnings	139,859	319,168	459,027	14,065
Gain on sale of capital assets	-	2,180	2,180	-
Transfers - internal activities	182,308	(182,308)	-	-
Total general revenues and transfers	5,570,116	139,040	5,709,156	124,119
Change in net assets	(477,622)	1,296,103	818,481	60,821
Net assets, beginning of year, as restated	12,031,589	19,984,411	32,016,000	2,449,756
Net assets, end of year	<u>\$ 11,553,967</u>	<u>\$ 21,280,514</u>	<u>\$ 32,834,481</u>	<u>\$ 2,510,577</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

CITY OF NILES, MICHIGAN

Balance Sheet Governmental Funds September 30, 2006

	General	Nonmajor Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ 2,472,047	\$ 1,231,513	\$ 3,703,560
Investments	2,549,137	799,252	3,348,389
Taxes receivable	334,699	10,871	345,570
Special assessments receivable	16,803	-	16,803
Loans receivable	-	367,781	367,781
Interest receivable	-	3,616	3,616
Other receivables	1,699	100,000	101,699
Due from other governments	297,198	339,694	636,892
Due from other funds	504,827	202,023	706,850
	<hr/>	<hr/>	<hr/>
<u>TOTAL ASSETS</u>	\$ 6,176,410	\$ 3,054,750	\$ 9,231,160
	<hr/>	<hr/>	<hr/>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ 145,583	\$ 80,476	\$ 226,059
Accrued and other liabilities	125,288	9,877	135,165
Due to other funds	218,293	456,641	674,934
Deferred revenue	2,966,326	14,120	2,980,446
	<hr/>	<hr/>	<hr/>
Total liabilities	3,455,490	561,114	4,016,604
	<hr/>	<hr/>	<hr/>
Fund balances:			
Reserved for long-term receivables	-	467,781	467,781
Unreserved:			
Undesignated	2,720,920	-	2,720,920
Undesignated, reported in nonmajor:			
Special revenue funds	-	1,053,237	1,053,237
Capital projects funds	-	178,871	178,871
Permanent fund	-	793,747	793,747
	<hr/>	<hr/>	<hr/>
Total fund balances	2,720,920	2,493,636	5,214,556
	<hr/>	<hr/>	<hr/>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 6,176,410	\$ 3,054,750	\$ 9,231,160
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

CITY OF NILES, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
September 30, 2006

Fund balances - total governmental funds	\$ 5,214,556
--	--------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets not being depreciated	2,088,110
Add: capital assets being depreciated	13,676,910
Deduct: accumulated depreciation	(7,990,824)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred special assessments	15,570
-----------------------------------	--------

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds and leases payable	(901,908)
Deduct: compensated absences and other benefits	(548,447)

Net assets of governmental activities	<u><u>\$ 11,553,967</u></u>
---------------------------------------	-----------------------------

The accompanying notes are an integral part of these financial statements.

CITY OF NILES, MICHIGAN
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2006

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 3,726,357	\$ 105,088	\$ 3,831,445
Special assessments	6,656	-	6,656
Intergovernmental	1,494,982	1,649,703	3,144,685
Charges for services	1,012,642	232,113	1,244,755
Licenses and permits	18,345	102,660	121,005
Fines and forfeitures	68,814	-	68,814
Investment earnings	139,859	87,262	227,121
Other	1,556,272	25,466	1,581,738
Total revenues	<u>8,023,927</u>	<u>2,202,292</u>	<u>10,226,219</u>
Expenditures			
Current:			
General government	3,055,005	171	3,055,176
Public safety	3,469,144	-	3,469,144
Public works	125,805	221,198	347,003
Highways and streets	988,098	907,719	1,895,817
Transportation	-	731,146	731,146
Community development	78,227	608,631	686,858
Recreation and culture	210,302	-	210,302
Debt service:			
Principal	59,878	30,000	89,878
Interest and fiscal charges	24,096	23,670	47,766
Total expenditures	<u>8,010,555</u>	<u>2,522,535</u>	<u>10,533,090</u>
Revenues over (under) expenditures	<u>13,372</u>	<u>(320,243)</u>	<u>(306,871)</u>
Other financing sources (uses)			
Proceeds from sale of capital assets	42,136	6,028	48,164
Transfers in	26,432	535,645	562,077
Transfers out	(54,557)	(325,212)	(379,769)
Total other financing sources (uses)	<u>14,011</u>	<u>216,461</u>	<u>230,472</u>
Net change in fund balances	27,383	(103,782)	(76,399)
Fund balances, beginning of year, as restated	<u>2,693,537</u>	<u>2,597,418</u>	<u>5,290,955</u>
Fund balances, end of year	<u><u>\$ 2,720,920</u></u>	<u><u>\$ 2,493,636</u></u>	<u><u>\$ 5,214,556</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF NILES, MICHIGAN
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2006

Net change in fund balances - total governmental funds \$ (76,399)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	291,149
Deduct: depreciation expense	(605,402)
Deduct: proceeds from sale of capital assets	(48,164)
Deduct: loss on sale of capital assets	(203,553)

Governmental funds record revenue from special assessments as they are collected. However, in the statement of activities, special assessments are recognized as revenue in the year levied.

Deduct: current year collections on deferred special assessments	(5,058)
--	---------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	89,878
--	--------

Certain assets, such as inventory, are not financial resources, and therefore are not reported in the funds. However, in the statement of activities, expenses are recognized in the year the assets are consumed.

Deduct: change in inventory accounted for on the purchases method	(16,082)
---	----------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in the accrual for compensated absences	96,009
---	--------

Change in net assets of governmental activities	\$ (477,622)
---	--------------

The accompanying notes are an integral part of these financial statements.

CITY OF NILES, MICHIGAN
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund
For the Year Ended September 30, 2006

	Original/ Final Budget	Actual	Over (Under) Budget
Revenues			
Property taxes	\$ 3,750,609	\$ 3,726,357	\$ (24,252)
Special assessments	3,500	6,656	3,156
Intergovernmental	1,595,500	1,494,982	(100,518)
Charges for services	998,743	1,012,642	13,899
Licenses and permits	19,800	18,345	(1,455)
Fines and forfeitures	60,100	68,814	8,714
Investment earnings	58,500	139,859	81,359
Other	1,429,700	1,556,272	126,572
Total revenues	7,916,452	8,023,927	107,475
Expenditures			
Current:			
General government	3,036,728	3,055,005	18,277
Public safety	3,481,479	3,469,144	(12,335)
Public works	161,500	125,805	(35,695)
Highways and streets	977,500	988,098	10,598
Community development	83,897	78,227	(5,670)
Recreation and culture	232,967	210,302	(22,665)
Debt service:			
Principal	59,904	59,878	(26)
Interest and fiscal charges	24,096	24,096	-
Total expenditures	8,058,071	8,010,555	(47,516)
Revenues over (under) expenditures	(141,619)	13,372	154,991
Other financing sources (uses)			
Proceeds from sale of capital assets	2,000	42,136	40,136
Transfers in	45,119	26,432	(18,687)
Transfers out	-	(54,557)	(54,557)
Total other financing sources (uses)	47,119	14,011	(33,108)
Net change in fund balances	(94,500)	27,383	121,883
Fund balances, beginning of year, as restated	2,693,537	2,693,537	-
Fund balances, end of year	<u>\$ 2,599,037</u>	<u>\$ 2,720,920</u>	<u>\$ 121,883</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NILES, MICHIGAN

Statement of Net Assets

Proprietary Funds

September 30, 2006

	Business-type Activities - Enterprise Funds				
	Electric	Sewer	Water	Nonmajor Enterprise Funds	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 2,959,176	\$ 796	\$ 590,468	\$ 238,039	\$ 3,788,479
Investments	1,000,000	-	-	-	1,000,000
Accounts receivable - customers	705,974	139,319	103,979	-	949,272
Accounts receivable - other	9,680	87,323	19,189	-	116,192
Interest receivable	54,283	5,783	574	12	60,652
Due from other governments	173,127	-	-	-	173,127
Due from other funds	1,093,205	3,346	2,766	10,549	1,109,866
Inventories	581,021	-	64,018	-	645,039
Prepaid items	7,649	4,368	5,042	-	17,059
Total current assets	6,584,115	240,935	786,036	248,600	7,859,686
Noncurrent assets:					
Restricted cash and cash equivalents	-	2,578,151	-	-	2,578,151
Capital assets not being depreciated	120,108	114,296	260,447	104,414	599,265
Capital assets being depreciated, net	4,769,806	4,637,463	8,743,052	205,662	18,355,983
Other assets - deferred bond costs	-	-	110,934	-	110,934
Total noncurrent assets	4,889,914	7,329,910	9,114,433	310,076	21,644,333
Total assets	11,474,029	7,570,845	9,900,469	558,676	29,504,019
Liabilities					
Current liabilities:					
Accounts payable	626,210	44,508	14,547	18,205	703,470
Accrued and other liabilities	48,786	40,847	17,284	6,123	113,040
Due to other funds	155,761	918,731	67,290	-	1,141,782
Deposits payable	175,410	1,000	43,024	-	219,434
Bonds and notes payable, current portion	-	-	226,402	-	226,402
Compensated absences, current portion	27,642	-	-	-	27,642
Total current liabilities	1,033,809	1,005,086	368,547	24,328	2,431,770
Noncurrent liabilities:					
Bonds and notes payable, net of current portion	-	-	5,352,541	-	5,352,541
Compensated absences, net of current portion	175,064	123,060	141,070	-	439,194
Total noncurrent liabilities	175,064	123,060	5,493,611	-	5,791,735
Total liabilities	1,208,873	1,128,146	5,862,158	24,328	8,223,505
Net Assets					
Invested in capital assets, net of related debt	4,889,914	4,751,759	3,424,556	310,076	13,376,305
Restricted for equipment replacement	-	2,578,151	-	-	2,578,151
Unrestricted (deficit)	5,375,242	(887,211)	613,755	224,272	5,326,058
Total net assets	\$ 10,265,156	\$ 6,442,699	\$ 4,038,311	\$ 534,348	\$ 21,280,514

The accompanying notes are an integral part of these financial statements.

CITY OF NILES, MICHIGAN
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2006

	Business-type Activities - Enterprise Funds				
	Nonmajor Enterprise Funds				Total
	Electric	Sewer	Water		
Operating revenues					
Charges for services	\$ 9,867,108	\$ 2,126,137	\$ 1,853,194	\$ 197,094	\$ 14,043,533
Penalties and fees	123,490	16,154	25,520	-	165,164
Rent	-	-	-	85,876	85,876
Other	13,952	5,992	3,186	425	23,555
Total operating revenues	10,004,550	2,148,283	1,881,900	283,395	14,318,128
Operating expenses					
Production	6,355,750	-	254,933	-	6,610,683
Transmission	22,128	-	-	-	22,128
Distribution	1,678,778	-	582,947	-	2,261,725
Sewage collection	-	3,859	-	-	3,859
Processing	-	1,145,271	-	-	1,145,271
Administrative and general	1,881,183	587,499	574,514	-	3,043,196
Other operations	-	24,951	-	345,951	370,902
Depreciation	371,141	296,627	315,399	44,474	1,027,641
Total operating expenses	10,308,980	2,058,207	1,727,793	390,425	14,485,405
Operating income (loss)	(304,430)	90,076	154,107	(107,030)	(167,277)
Non-operating revenues (expenses)					
Intergovernmental	325,522	85,936	16,804	-	428,262
Rentals	11,642	-	-	-	11,642
Tap fees	-	-	15,435	-	15,435
Investment income	151,911	114,664	38,378	14,215	319,168
Interest expense	-	-	(51,001)	-	(51,001)
Gain on disposal of capital assets	2,180	-	-	-	2,180
Other non-operating revenue	4,161	3,560	9,623	-	17,344
Total non-operating revenues (expenses)	495,416	204,160	29,239	14,215	743,030
Income (loss) before transfers and capital contributions	190,986	294,236	183,346	(92,815)	575,753
Transfers in	-	-	-	38,890	38,890
Transfers out	-	(221,198)	-	-	(221,198)
Capital contributions	3,746	-	898,912	-	902,658
Change in net assets	194,732	73,038	1,082,258	(53,925)	1,296,103
Net assets, beginning of year, as restated	10,070,424	6,369,661	2,956,053	588,273	19,984,411
Net assets, end of year	\$ 10,265,156	\$ 6,442,699	\$ 4,038,311	\$ 534,348	\$ 21,280,514

The accompanying notes are an integral part of these financial statements.

CITY OF NILES, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2006

	Business-type Activities - Enterprise Funds				
	Electric	Sewer	Water	Nonmajor Enterprise Funds	Total
Cash flows from operating activities					
Cash received from customers and others	\$ 9,898,737	\$ 2,046,557	\$ 1,862,859	\$ 280,868	\$ 14,089,021
Cash payments to suppliers for goods and services	(8,928,808)	(614,739)	(863,594)	(164,364)	(10,571,505)
Cash payments to employees	(1,064,657)	(1,008,794)	(633,160)	(183,131)	(2,889,742)
Net cash provided (used) by operating activities	(94,728)	423,024	366,105	(66,627)	627,774
Cash flows from investing activities					
Investment income	151,911	114,664	38,378	14,215	319,168
Proceeds from sale of investments	1,000,000	-	-	-	1,000,000
Purchase of investments	(1,000,000)	-	-	-	(1,000,000)
Net cash provided by investing activities	151,911	114,664	38,378	14,215	319,168
Cash flows from capital and related financing activities					
Purchase of capital assets	(221,906)	(168,714)	(868,217)	-	(1,258,837)
Bond principal payments	-	-	(186,402)	-	(186,402)
Bond interest payments	-	-	(44,507)	-	(44,507)
Net cash provided (used) by capital and related financing activities	(221,906)	(168,714)	(1,099,126)	-	(1,489,746)
Cash flows from non-capital financing activities					
Intergovernmental receipts	325,522	85,936	16,804	-	428,262
Other non-operating receipts	15,803	3,560	25,058	-	44,421
Transfers from other funds	-	-	-	38,890	38,890
Transfers to other funds	-	(221,198)	-	-	(221,198)
Net cash provided (used) by non-capital financing activities	341,325	(131,702)	41,862	38,890	290,375
Net increase (decrease) in cash and cash equivalents	176,602	237,272	(652,781)	(13,522)	(252,429)
Cash and cash equivalents, beginning of year	2,782,574	2,341,675	1,243,249	251,561	6,619,059
Cash and cash equivalents, end of year	\$ 2,959,176	\$ 2,578,947	\$ 590,468	\$ 238,039	\$ 6,366,630
Classification on the Statement of Net Assets					
Cash and cash equivalents	\$ 2,959,176	\$ 796	\$ 590,468	\$ 238,039	\$ 3,788,479
Restricted cash and cash equivalents	-	2,578,151	-	-	2,578,151
	\$ 2,959,176	\$ 2,578,947	\$ 590,468	\$ 238,039	\$ 6,366,630

CITY OF NILES, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended September 30, 2006

	Business-type Activities - Enterprise Funds				
	Electric	Sewer	Water	Nonmajor Enterprise Funds	Total
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ (304,430)	\$ 90,076	\$ 154,107	\$ (107,030)	\$ (167,277)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	371,141	296,627	315,399	44,474	1,027,641
Changes in assets and liabilities:					
Accounts receivable - customers	(69,658)	(16,462)	(6,391)	-	(92,511)
Accounts receivable - other	13,704	(87,323)	(18,664)	-	(92,283)
Interest receivable	(27,230)	1,200	(108)	-	(26,138)
Due from other governments	172,997	-	-	-	172,997
Due from other funds	(195,626)	859	6,122	(2,527)	(191,172)
Inventories	23,961	(4,194)	(5,341)	-	14,426
Prepaid items	(2,016)	428	(681)	-	(2,269)
Accounts payable	(38,442)	(2,985)	(150,648)	(1,543)	(193,618)
Accrued and other liabilities	(576)	6,562	8,759	(1)	14,744
Due to other funds	(71,197)	138,236	54,126	-	121,165
Deposits payable	32,644	-	9,425	-	42,069
Net cash provided (used) by operating activities	\$ (94,728)	\$ 423,024	\$ 366,105	\$ (66,627)	\$ 627,774

The accompanying notes are an integral part of these financial statements.

CITY OF NILES, MICHIGAN
Statement of Fiduciary Net Assets
September 30, 2006

	Pension Trust Fund	Agency Funds
Assets		
Cash and cash equivalents	\$ 168,427	\$ 654,546
Investments:		
U.S. treasuries	934,131	-
U.S. agencies	5,254,012	-
Corporate bonds	3,981,348	-
Equities (common and preferred stock)	17,810,866	-
Money market	852,622	-
Total assets	29,001,406	<u><u>\$ 654,546</u></u>
Liabilities		
Due to other government:	<u>-</u>	<u><u>\$ 654,546</u></u>
Net assets held in trust for retirees	<u><u>\$ 29,001,406</u></u>	

The accompanying notes are an integral part of these financial statements.

CITY OF NILES, MICHIGAN
Statement of Changes in Fiduciary Net Assets
September 30, 2006

	Pension Trust Fund
Additions	
Contributions:	
Employer	\$ 213,271
Employee	402,256
Total contributions	<u>615,527</u>
Investment income:	
Interest and dividends	855,695
Change in fair value of investments	1,270,272
Less: investment expenses	<u>(162)</u>
Total investment income	<u>2,125,805</u>
Total additions	<u>2,741,332</u>
Deductions	
Benefit payments	1,714,855
Refunds	116,096
Administrative expenses	<u>156,486</u>
Total deductions	<u>1,987,437</u>
Change in net assets	753,895
Net assets held in trust for retirees	
Beginning of year	<u>28,247,511</u>
End of year	<u><u>\$ 29,001,406</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF NILES, MICHIGAN
Combining Statement of Net Assets
Component Units
September 30, 2006

	<u>Downtown Development Authority</u>	<u>Niles Housing Commission</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 4,253	\$ 4,804	\$ 9,057
Investments	-	258,092	258,092
Taxes receivable	1,377	-	1,377
Accounts receivable	4,978	12,489	17,467
Prepaid items and other assets	-	7,112	7,112
Capital assets not being depreciated	-	420,117	420,117
Capital assets being depreciated, net	<u>21,967</u>	<u>1,902,994</u>	<u>1,924,961</u>
Total assets	<u>32,575</u>	<u>2,605,608</u>	<u>2,638,183</u>
Liabilities			
Accounts payable	9,215	31,794	41,009
Accrued and other liabilities	1,393	74,734	76,127
Long-term debt-			
Due in more than one year	<u>-</u>	<u>10,470</u>	<u>10,470</u>
Total liabilities	<u>10,608</u>	<u>116,998</u>	<u>127,606</u>
Net assets			
Invested in capital assets	21,967	2,323,111	2,345,078
Unrestricted	<u>-</u>	<u>165,499</u>	<u>165,499</u>
Total net assets	<u><u>\$ 21,967</u></u>	<u><u>\$ 2,488,610</u></u>	<u><u>\$ 2,510,577</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF NILES, MICHIGAN
Combining Statement of Activities
Component Units
For the Year Ended September 30, 2006

	<u>Downtown Development Authority</u>	<u>Niles Housing Commission</u>	<u>Total</u>
Expenses			
Downtown development	\$ 125,757	\$ -	\$ 125,757
Housing development	<u>-</u>	<u>1,008,616</u>	<u>1,008,616</u>
Total expenses	<u>125,757</u>	<u>1,008,616</u>	<u>1,134,373</u>
Program revenues			
Charges for services	-	426,853	426,853
Operating grants and contributions	-	345,496	345,496
Capital grants and contributions	<u>-</u>	<u>298,726</u>	<u>298,726</u>
Total program revenues	<u>-</u>	<u>1,071,075</u>	<u>1,071,075</u>
Net (expense) income	<u>(125,757)</u>	<u>62,459</u>	<u>(63,298)</u>
General revenues			
Property taxes	75,985	-	75,985
Grants and contributions not restricted to specific programs	22,656	11,413	34,069
Unrestricted investment earnings	<u>1,573</u>	<u>12,492</u>	<u>14,065</u>
Total general revenues	<u>100,214</u>	<u>23,905</u>	<u>124,119</u>
Change in net assets	(25,543)	86,364	60,821
Net assets, beginning of year, as restated	<u>47,510</u>	<u>2,402,246</u>	<u>2,449,756</u>
Net assets, end of year	<u><u>\$ 21,967</u></u>	<u><u>\$ 2,488,610</u></u>	<u><u>\$ 2,510,577</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF NILES, MICHIGAN

Notes To Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting Entity

The accompanying financial statements present the activities of the City of Niles, Michigan (the “City” or “government”) and its two component units, legally separate organizations for which the City is financially accountable. The two component units are discretely presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City. The Niles Housing Commission has a December 31, 2005 year-end, while the Downtown Development Authority has a September 30, 2006 year-end.

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements Available</u>
Niles Housing Commission (NHC); manages low rent public housing	City Administrator appoints and may remove HC board	Housing Commission
Downtown Development Authority (DDA); corrects and prevents deterioration in the downtown district, encourages historical preservation and promotes economic growth within the district	City Council appoints and may remove DDA board and approves DDA budget	Finance Department in the Utilities Building

1-B. Basis of Presentation

Government-wide Financial Statements. The statements of net assets and activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City’s *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

CITY OF NILES, MICHIGAN

Notes To Financial Statements

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

General fund. This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major enterprise funds:

Electric fund. This fund accounts for the operation and maintenance of the City's electric system.

Water enterprise fund. This fund accounts for the operations of the City's water distribution and water treatment systems.

Sewage enterprise fund. This fund accounts for the activities of the City's sewage disposal and sewage treatment systems.

Additionally, the City reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt service funds. These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital projects funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Permanent funds. These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs.

Enterprise funds. These funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Pension trust fund. This fund accounts for the activities of the City's two retirement plans, which accumulate resources for retirement benefit payments to qualified employees.

Agency funds. These funds account for assets held for other governments in an agency capacity.

CITY OF NILES, MICHIGAN

Notes To Financial Statements

1-C. Measurement Focus / Basis of Accounting

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end, except for income tax revenue for which a 15-day collection period is used. Property taxes, franchise taxes, licenses and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues, subject to satisfying any grant program matching provisions.

CITY OF NILES, MICHIGAN

Notes To Financial Statements

All governmental and business-type activities and enterprise funds of the City follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

1-D. Assets, Liabilities and Equity

Deposits and Investments

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments. The State's Pension Investment Act, as amended, authorizes the pension trust fund to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Unrealized appreciation or depreciation on pension trust fund investments due to changes in fair value are recognized each year.

Receivables and Payables

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

Certain loans receivable in governmental funds consist of low or noninterest bearing loans made to local businesses for community development purpose.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund receivables/payables* (i.e., the current portion of interfund loans) or *advances to/from other funds* (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

CITY OF NILES, MICHIGAN

Notes To Financial Statements

Inventories, Prepaid Items and Other Assets

All inventories are valued at cost using the first-in/first-out method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land and leasehold improvements	10-50
Buildings	25-50
Machinery and equipment	3-10
Vehicles and heavy equipment	3-15
Infrastructure	25-50

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and compensatory time benefits, subject to certain limitations. Certain bargaining unit employees are also permitted to accumulate earned but unused sick leave. All vacation time pay and 50 percent of sick leave are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

CITY OF NILES, MICHIGAN

Notes To Financial Statements

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year end, except for those approved by the City Council for carry forward. The legal level of budgetary control is the functional level.

The City Council requires the City Administrator to submit an estimate of revenues and anticipated expenditures for the succeeding fiscal year in June. The City Administrator is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Council approval is required for any budgetary changes that result in an increase to net appropriations.

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Council in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuations.

CITY OF NILES, MICHIGAN

Notes To Financial Statements

2-B. Excess of Expenditures Over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City were adopted on a functional level basis.

During the year ended September 30, 2006, the City incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control in the following funds:

	Original/ Final Budget	Actual	Over Budget
General Fund			
General government	\$ 3,036,728	\$ 3,055,005	\$ 18,277
Highways and streets	977,500	988,098	10,598
Transfers out	-	54,557	54,557
Community Development Grants and Loans			
Community development	-	493	493
Downtown Revolving Loans			
Community development	350	2,212	1,862
Community Development Housing			
Community development	-	68,332	68,332
HUD Entitlement Program			
Community development	-	391,883	391,883
Industrial Park			
Community development	-	59	59

CITY OF NILES, MICHIGAN

Notes To Financial Statements

NOTE 3 – DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

3-A. Deposits and Investments – Pooled Cash and Investments

	Primary Government	Component Units	Fiduciary Funds	Total
Cash and cash equivalents	\$ 7,492,039	\$ 9,057	\$ 822,973	\$ 8,324,069
Investments	4,348,389	258,092	28,832,979	33,439,460
Restricted cash and cash equivalents	2,578,151	-	-	2,578,151
	\$ 14,418,579	\$ 267,149	\$ 29,655,952	\$ 44,341,680

Cash and investments are composed of the following at September 30, 2006:

Checking/savings accounts	\$ 6,724,317
Certificates of deposit	4,169,833
Investments	4,606,481
Pension trust investments	28,832,979
Cash on hand	8,070
Total cash and cash equivalents	\$ 44,341,680

Custodial Credit Risk - Deposits. For deposits, custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to the government. As of September 30, 2006, \$8,818,321 of the City's total bank balance of \$11,219,267 (total book balance was \$10,894,150) was exposed to custodial credit risk as it was uninsured and uncollateralized.

The City's investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments. Following is a summary of the City's investments as of September 30, 2006:

U.S. treasuries	\$ 999,986
U.S. agencies	3,235,088
Money market	371,407
Total	\$ 4,606,481

CITY OF NILES, MICHIGAN

Notes To Financial Statements

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of September 30, 2006, none of the City's investments, excluding the money market accounts which are not subject to custodial credit risk, were exposed to risk since the securities are held in the City's name by the counterparty.

Credit Risk. As of September 30, 2006, all of the City's investments in securities of U.S. agencies were rated AAA by Standard & Poor's. The City also held investments in U.S. treasuries and money market mutual funds, which are not rated. All of the City's investments comply with its policy regarding the types of investments it may hold.

Interest Rate Risk. As of September 30, 2006, maturities of the City's debt securities were all between 1 and 5 years. The City's investment policy does not address interest rate risk.

3-B. Deposits and Investments – Pension Trust Fund

The Pension Trust Fund (the "System") deposits and investments are maintained separately from the City's pooled cash and investments, and are subject to separate investment policies and state statutes. Accordingly, the required disclosures for the System's deposits and investments are presented separately.

Deposits - The System does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and cash equivalents in the statement of plan net assets are composed entirely of short-term investments in money market accounts.

Investments - The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Retirement Board has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the System's assets. All investment decisions are subject to Michigan law and the investment policy established by the Retirement Board.

CITY OF NILES, MICHIGAN

Notes To Financial Statements

The System's investments are held in a bank-administered trust fund. Following is a summary of the System's investments as of September 30, 2006:

U.S. treasuries	\$ 934,131
U.S. agencies	5,254,012
Corporate bonds	3,981,348
Equities (common and preferred stock)	17,810,866
Money market	<u>852,622</u>
Total	<u>\$ 28,832,979</u>

Credit Risk. The System's investment policy provides that its investments in fixed income securities be limited to those rated BBB or better by a nationally recognized statistical rating organization. As of September 30, 2006, the System's investments in securities of U.S. agencies were all rated AAA by Standard & Poor's. The System's investments in corporate securities were rated by Standard & Poor and Moody's as follows:

Moody's	Amount
A1	\$ 290,651
A2	301,151
A3	334,138
AA2	478,075
AA3	657,860
Aaa	912,218
AGY	220,804
BAA1	91,988
BAA2	118,277
BAA3	53,836
NR	197,727
Total Moody's	<u>3,656,725</u>
S & P	Amount
AAA	<u>324,623</u>
Total Corporate Investment	<u>\$ 3,981,348</u>

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that investment securities be held in trust by a third-party institution in the System's name. As such, although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the System's name.

Short-term investments in money market funds are not subject to custodial credit risk.

CITY OF NILES, MICHIGAN

Notes To Financial Statements

Concentration of Credit Risk. At September 30, 2006, the investment portfolio was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>
U.S. agencies	Federal National Mortgage Association	52.9%
	Federal Home Loan Mortgage Association	36.7%
	Federal Home Loan Bank	7.7%

The System's investment policy requires that the securities of any one company or government agency should not exceed 10% of the total fund and no more than 25% of the total fund should be invested in any one industry.

Interest Rate Risk. As of September 30, 2006, maturities of the City's debt securities were as follows:

	<u>Fair Value</u>	<u>Investment Maturities (fair value by years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. treasuries	\$ 934,131	\$ -	\$ -	\$ 291,926	\$ 642,205
U.S. agencies	5,254,012	-	488,714	1,238,490	3,526,808
Domestic corporate securities	3,981,348	-	850,332	1,260,260	1,870,756
Total debt securities	\$ 10,169,491	\$ -	\$ 1,339,046	\$ 2,790,676	\$ 6,039,769

The System's investment policy provides that the maximum maturity for any single fixed income security is ten years and that the weighted average portfolio maturity may not exceed eight years.

3-C. Receivables

Receivables in the governmental and business-type activities are as follows:

<u>Description</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Taxes receivable	\$ 345,570	\$ -
Special assessments receivable	16,803	-
Loans receivable	367,781	-
Interest receivable	3,616	37,168
Accounts receivable	101,699	139,676
Due from other governments	636,892	173,127
Accounts receivable - customers	-	949,272
	<u>\$ 1,472,361</u>	<u>\$ 1,299,243</u>

CITY OF NILES, MICHIGAN

Notes To Financial Statements

3-D. Capital Assets

Capital assets activity for the year ended September 30, 2006, was as follows:

Governmental activities

	Balance October 1, 2005	Additions	Disposals	Balance September 30, 2006
Capital assets, not being depreciated:				
Land	\$ 2,318,517	\$ 10,761	\$ (241,168)	\$ 2,088,110
Capital assets, being depreciated:				
Land improvements	785,108	1,517	-	786,625
Buildings	5,525,950	1,275	-	5,527,225
Furniture and equipment	2,583,307	62,920	(20,115)	2,626,112
Vehicles	4,382,912	214,676	(67,728)	4,529,860
Infrastructure	207,089	-	-	207,089
Total capital assets being depreciated	13,484,366	280,388	(87,843)	13,676,911
Less accumulated depreciation for:				
Land improvements	(338,923)	(25,172)	-	(364,095)
Buildings	(2,831,636)	(157,650)	-	(2,989,286)
Furniture and equipment	(1,533,717)	(119,314)	14,912	(1,638,119)
Vehicles	(2,754,299)	(294,982)	62,382	(2,986,899)
Infrastructure	(4,142)	(8,284)	-	(12,426)
Total accumulated depreciation	(7,462,717)	(605,402)	77,294	(7,990,825)
Total capital assets being depreciated, net	6,021,649	(325,014)	(10,549)	5,686,086
Capital assets, net	\$ 8,340,166	\$ (314,253)	\$ (251,717)	\$ 7,774,196

CITY OF NILES, MICHIGAN

Notes To Financial Statements

Business-type Activities

	Balance October 1, 2005	Additions	Disposals	Balance September 30, 2006
Capital assets, not being depreciated:				
Land	\$ 503,781	\$ -	\$ -	\$ 503,781
Construction in process	3,796,079	875,151	(4,575,746)	95,484
Total capital assets, not being depreciated	4,299,860	875,151	(4,575,746)	599,265
Capital assets, being depreciated:				
Land and leasehold improvements	484,761	-	-	484,761
Buildings	8,350,910	3,429,717	-	11,780,627
Machinery and equipment	1,824,856	7,370	-	1,832,226
Vehicles and heavy equipment	997,351	30,170	-	1,027,521
Infrastructure	33,518,009	2,446,852	(13,500)	35,951,361
Total capital assets being depreciated	45,175,887	5,914,109	(13,500)	51,076,496
Less accumulated depreciation for:				
Land and leasehold improvements	(307,795)	(22,449)	-	(330,244)
Buildings	(4,901,365)	(215,105)	-	(5,116,470)
Machinery and equipment	(1,278,750)	(75,083)	-	(1,353,833)
Vehicles and heavy equipment	(685,301)	(82,946)	-	(768,247)
Infrastructure	(24,483,324)	(681,895)	13,500	(25,151,719)
Total accumulated depreciation	(31,656,535)	(1,077,478)	13,500	(32,720,513)
Total capital assets being depreciated, net	13,519,352	4,836,631	-	18,355,983
Capital assets, net	\$ 17,819,212	\$ 5,711,782	(4,575,746)	\$ 18,955,248

CITY OF NILES, MICHIGAN

Notes To Financial Statements

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 60,422
Public safety	252,842
Public works	8,284
Highways and streets	123,998
Transportation	86,655
Culture and recreation	1,418
Community development	71,783

Total depreciation expense-governmental activities	<u><u>\$ 605,402</u></u>
--	--------------------------

Depreciation expense was charged to funds of the business-type activities as follows:

Business-type activities

Electric	\$ 529,090
Water	246,748
Sewage	257,167
Airport	13,907
Cemetery	8,417
Plym Parks Golf	22,149

Total depreciation expense business-type activities	<u><u>\$ 1,077,478</u></u>
---	----------------------------

CITY OF NILES, MICHIGAN

Notes To Financial Statements

Discretely presented component units

Activity for the Niles Housing Commission for the year ended December 31, 2005, was as follows:

	Balance January 1, 2004	Additions	Disposals	Balance December 31, 2005
Capital assets not depreciated:				
Land	\$ 212,091	\$ -	\$ -	\$ 212,091
Construction in process	148,824	298,726	(239,524)	208,026
Total capital assets, not being depreciated	360,915	298,726	(239,524)	420,117
Capital assets being depreciated:				
Building and improvements	5,205,638	159,093	-	5,364,731
Equipment	375,113	87,285	(9,070)	453,328
Total capital assets being depreciated	5,580,751	246,378	(9,070)	5,818,059
Total accumulated depreciation	(3,740,314)	(183,779)	9,028	(3,915,065)
Capital assets, net	\$ 2,201,352	\$ 361,325	\$ (239,566)	\$ 2,323,111

Activity for the Downtown Development Authority for the year ended September 30, 2006, was as follows:

	Balance October 1, 2005	Additions	Disposals	Balance September 30, 2006
Capital assets, being depreciated:				
Equipment	\$ 35,277	\$ -	\$ -	\$ 35,277
Less accumulated depreciation for:				
Equipment	(9,681)	(3,629)	-	(13,310)
Capital assets, net	\$ 25,596	\$ (3,629)	\$ -	\$ 21,967

CITY OF NILES, MICHIGAN

Notes To Financial Statements

3-E. Payables

Accounts payable and accrued liabilities in the governmental and business-type activities are as follows:

Description	Governmental Activities	Business-type Activities
Accounts payable	\$ 226,059	\$ 703,470
Due to other governments	-	-
Deposits payable	-	219,434
Other liabilities	135,165	113,040
	<u>\$ 361,224</u>	<u>\$ 1,035,944</u>

3-F. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2006, is as follows:

	Due to	Due from
Governmental Funds:		
General Fund	\$ 218,293	\$ 504,827
Non-major governmental funds	456,641	202,023
Enterprise Funds:		
Electric Fund	155,761	1,093,205
Sewer Fund	918,731	3,346
Water Fund	67,290	2,766
Non-major enterprise funds	-	10,549
Total	<u>\$ 1,816,716</u>	<u>\$ 1,816,716</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

CITY OF NILES, MICHIGAN

Notes To Financial Statements

For the year ended September 30, 2006, interfund transfers consisted of the following:

	<u>In</u>	<u>Out</u>
Governmental Funds:		
General Fund	\$ 26,432	\$ 54,557
Non-major governmental funds	535,645	325,212
Enterprise Funds:		
Sewer Fund	-	221,198
Non-major enterprise funds	38,890	-
Total	<u>\$ 600,967</u>	<u>\$ 600,967</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

3-G. Long-term Debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years for the items listed below was \$6,550,000 for the primary government. During the year, no new general obligation bonds were issued.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 10 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities		
1998 building authority refunding	4.75% - 4.80%	<u>\$ 475,000</u>
Business-type activities		
2004 Limited tax general obligation bonds	2.50% - 4.40%	<u>5,555,000</u>
		<u>\$ 6,030,000</u>

CITY OF NILES, MICHIGAN

Notes To Financial Statements

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended September 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 30,000	\$ 22,658	\$ 225,000	\$ 208,806
2008	30,000	21,233	255,000	203,182
2009	35,000	19,808	260,000	195,530
2010	35,000	18,145	270,000	187,732
2011	35,000	16,483	275,000	179,630
2012-2016	210,000	54,840	1,545,000	739,414
2017-2021	100,000	7,200	1,865,000	421,412
2022-2024	-	-	860,000	56,780
Total	<u>\$ 475,000</u>	<u>\$ 160,367</u>	<u>\$ 5,555,000</u>	<u>\$ 2,192,486</u>

Capital Lease. The government entered into one lease agreement for a fire truck. The original amount of the lease obligation was \$650,000. The capital lease outstanding at year-end amounted to \$426,908.

Annual debt service requirements to maturity for the capital lease are as follows:

Year Ended September 30	Governmental Activities	
	Principal	Interest
2007	\$ 62,842	\$ 21,132
2008	65,953	18,021
2009	69,217	14,757
2010	72,644	11,330
2011	76,239	7,734
2012-2016	80,013	3,961
	<u>\$ 426,908</u>	<u>\$ 76,935</u>

CITY OF NILES, MICHIGAN

Notes To Financial Statements

Changes in Long-Term Debt. Long-term liability activity for the year ended September 30, 2006, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<u>Primary Government</u>					
Governmental activities					
General obligation bonds	\$ 505,000	\$ -	\$ (30,000)	\$ 475,000	\$ 30,000
Capital leases	486,786	-	(59,878)	426,908	62,842
Compensated absences	624,456	202,870	(298,879)	528,447	555
Retiree life insurance benefit	20,000	-	-	20,000	-
	<u>\$ 1,636,242</u>	<u>\$ 202,870</u>	<u>\$ (388,757)</u>	<u>\$ 1,450,355</u>	<u>\$ 93,397</u>
Business-type activities					
General obligation bonds	\$ 5,740,000	\$ -	\$ (185,000)	\$ 5,555,000	\$ 225,000
Unamortized bond premiums	25,345	-	(1,402)	23,943	1,402
Compensated absences	466,836	-	-	466,836	27,642
	<u>\$ 6,232,181</u>	<u>\$ -</u>	<u>\$ (186,402)</u>	<u>\$ 6,045,779</u>	<u>\$ 254,044</u>
<u>Component Unit - Housing Commission</u>					
Compensated absences	<u>\$ 13,960</u>	<u>\$ -</u>	<u>\$ (3,490)</u>	<u>\$ 10,470</u>	<u>\$ -</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

3-H. Segment Information – Enterprise Funds

The government issued revenue bonds to finance certain improvements to its water and sewer systems. Because the Water and Sewer Funds are reported as major funds in the fund financial statements, segment disclosures herein are not required.

NOTE 4 – OTHER INFORMATION

4-A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2006, the City carried insurance through various commercial carriers, including the Michigan Municipal League, to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

CITY OF NILES, MICHIGAN

Notes To Financial Statements

4-B. Property Taxes

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Berrien County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2005 levy, including industrial facilities and neighborhood enterprise zone properties, but net of renaissance zones, was \$200,511,589. The government's general operating tax rate for fiscal 2004-05 was 14.1334 mills with an additional .5 mills for Dial-A-Ride Transportation.

Property taxes for the DDA are derived from tax increment financing agreements with the various applicable taxing authorities. Under these arrangements, the DDA receive the property taxes levied on the increment of current taxable values over the base year values on those properties located within the established tax increment financing district.

Property taxes are recognized in the fiscal year in which they are levied.

4-C. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

4-D. Defined Benefit Pension Plans

The City has two contributory, single-employer defined benefit plans covering substantially all of its employees: Plan A and Plan B

Membership in Plan A is open to all full-time employees of the City (other than policeman, fireman, those employees earning less than an average of \$500 per year, the medical director and independent contractors) including full-time elected officials. Employees who retire at or after age 63 with 10 years of credited service are entitled to a retirement benefit, payable monthly for life, equal to 1.9% of average monthly compensation for each year of credited service. Employees are allowed to purchase up to 5 years of military time.

CITY OF NILES, MICHIGAN

Notes To Financial Statements

Average monthly compensation is equal to $1/36^{\text{th}}$ of the earning of the employee during the best 3 consecutive years of the employee's final 10 years of employment with the City. Benefits fully vest upon reaching 10 years of credited service. Employees may retire early on or after age 55 with 10 years of credited service and receive reduced retirement benefits. The Plan also provides death and disability benefits. Covered employees under Plan A are required to contribute 5.92% of their annual compensation to the Plan.

Membership in Plan B is open to all full-time employees of the police and fire departments, other than those earning less than an average of \$500 per year, the medical director and independent contractors. Employees who retire at or after age 55 with 10 years of credited service, or on or after age 52 with 25 years of credited service, are entitled to a retirement benefit, payable monthly for life, equal to 2.6% of average monthly compensation (computed in the same manner as Plan A) for each year of credited service up to 30 years, with a maximum of 85% of average monthly compensation. Benefits for both police and fire employees fully vest upon reaching 15 years of credited service. Employees age 50 with 10 years of credited service or employees of any age with 25 years of credited service may retire early and received reduced retirement benefits. The Plan also provides death and disability benefits. Covered employees under Plan B are required to contribute 7% of their annual compensation to the Plan. Employees are allowed to purchase up to 5 years of military time.

The aggregate payroll for employees covered by the plans for the year ended December 31, 2005 was \$5,973,960 (\$4,209,900 for Plan A and \$1,764,060 for Plan B).

Plan membership consisted of the following at January 1, 2006 (the date of the most recent actuarial valuation available):

	<u>Plan A</u>	<u>Plan B</u>	<u>Total</u>
Retired plan members and beneficiaries receiving benefits	85	48	133
Terminated plan members entitled to but not yet receiving benefits	7	-	7
Active plan members	<u>100</u>	<u>34</u>	<u>134</u>
Total	<u>192</u>	<u>82</u>	<u>274</u>

CITY OF NILES, MICHIGAN

Notes To Financial Statements

In addition to the pension benefits described above, the City provides postretirement health care benefits, in accordance with certain collective bargaining unit agreements, to eligible employees who retire from the City prior to age 65. The City provides single coverage health insurance for members of the Police and Fire bargaining units who retire on or after age 55, until they are eligible for Medicare. The retiree must contribute the same monthly amount towards the cost of this coverage as single employees contribute at the time of retirement, which is currently \$12.56 and \$13.95 per month for Police and Fire retirees, respectively. For members of the other bargaining units who retire on or after age 62, the City contributes 50% of their single coverage health insurance until they are eligible for Medicare. There are currently 10 retirees meeting these eligibility requirements. The City's costs for these benefits are funded as claims are incurred and the Insurance account is reimbursed by the General Fund based on an annually computed individual COBRA rate for each eligible retiree. During the year ended September 30, 2006, an aggregate of \$117,501 was paid by the General Fund to the Insurance account for these postretirement health care benefits.

The City contributes to the Plans a percent of payroll calculated and recommended each year by the Plans' actuary. The Plans' contribution requirements for the plan year ended December 31, 2005 were \$601,040 (\$328,727 for Plan A and \$272,313 for Plan B) which consisted of \$211,152 from the City and \$389,888 from employees; these contributions represented approximately 2.5% and 6.3% of covered payroll, respectively.

The Plans invest in various types of securities (see note 3-B).

Three-Year Trend Information

Plan A	Annual	Percentage	Net
	Pension	of APC	Pension
Year Ended	Cost (APC)	Contributed	Obligation
2003	\$ 56,709	100%	\$ -
2004	53,873	100%	-
2005	66,950	99%	665

Plan B	Annual	Percentage	Net
	Pension	of APC	Pension
Year Ended	Cost (APC)	Contributed	Obligation
2003	\$ 20,140	100%	\$ -
2004	100,084	100%	-
2005	146,321	99%	1,454

CITY OF NILES, MICHIGAN

Notes To Financial Statements

Schedule of Funding Progress

Plan A

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL) Entry Age</u>	<u>(b-a) Unfunded AAL (UAAL)</u>	<u>Funded Ratio Total</u>	<u>(c) Covered Payroll</u>	<u>((b-a)/c) UAAL as a Percentage of Covered Payroll</u>
01/01/2004	\$15,045,577	\$14,761,710	\$(283,867)	102%	\$4,050,559	(7.01)%
01/01/2005	15,770,486	15,501,303	(269,183)	102%	4,463,365	(6.03)%
01/01/2006	16,441,525	15,880,718	(560,807)	104%	4,209,900	(13.32)%

Plan B

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL) Entry Age</u>	<u>(b-a) Unfunded AAL (UAAL)</u>	<u>Funded Ratio Total</u>	<u>(c) Covered Payroll</u>	<u>((b-a)/c) UAAL as a Percentage of Covered Payroll</u>
01/01/2004	\$11,955,949	\$11,809,688	\$(146,261)	101%	\$1,542,122	(9.5)%
01/01/2005	12,251,786	12,522,314	270,528	98%	1,727,517	15.7%
01/01/2006	12,531,397	13,177,825	646,428	95%	1,764,060	36.6%

CITY OF NILES, MICHIGAN

Notes To Financial Statements

4-E. Joint Ventures

The City is a part of two joint ventures. The government-wide financial statements do not reflect any financial interest in either entity as there is not a definable interest to recognize at this time. The joint ventures are as follows:

Southwest Michigan Community Ambulance Service

On November 10, 1975, the City of Niles, City of Buchanan, Niles Township, Bertrand Township, Buchanan Township and Howard Township created a corporation known as the Southwest Michigan Community Ambulance Service (“SMCAS”). The purpose of this corporation is to provide ambulance and /or emergency medical service within the boundaries of the participation municipalities. The Board of Trustees consists of the one representative from each constituent municipality.

The corporation shall continue until dissolved by agreement of the constituent municipalities or by other means. In the event the corporation is dissolved, assets of the corporation shall be divided among the constituent members at the time of dissolution and division shall be made according to population. Likewise, in the event it becomes necessary to finance all or/any part of the operating expenses of the corporation by contribution, such contributions will be made by the participating member on the basis of population.

Financial statements of SMCAS are available at its office located at 2100 Chicago Road, Niles, MI 49120.

Southeast Berrien County Landfill Authority

On October 9, 1969, the City of Niles, Bertrand Township, Buchanan Township, Niles Township and the City of Buchanan created the Southeast Berrien County Landfill Authority (the “Authority”). The purpose of the Authority is to facilitate the collection and disposal of garbage and rubbish. The governing body of the Authority consists of two representatives from each constituent municipality, one of who must be the Supervisor, President or City Manager.

The Authority shall continue until dissolved by all parties or by law. In the event the Authority is dissolved, liabilities shall be assessed and assets of the Authority shall be distributed after payment of all liabilities, obligations and agreements to the constituent municipalities. The method of distribution will be determined by the parties involved at the time.

Financial statements of the Authority are available at its office located at 3200 Chamberlain Road, Buchanan, MI 49107.

CITY OF NILES, MICHIGAN

Notes To Financial Statements

4-F. Restatements

The beginning fund balance in the general fund was increased by \$349,781 to write-off certain liabilities accrued in prior years that were not payable out of current financial resources. This restatement was offset by a decrease of \$125,288 to record accrued payroll at October 1, 2005. The adjustment for accrued payroll also resulted in decreases to the beginning fund balances of the Major Streets, Local Streets, Building Department, and Sewer Maintenance Funds in the amounts of \$1,457, \$1,392, \$3,029, and \$3,998, respectively. Beginning fund balance in the Cemetery Perpetual Care permanent fund was increased by \$13,692 to properly reflect the fair value of investments at October 1, 2005.

The beginning net assets of the Electric, Sewer, Water, Cemetery, and Plym Park Golf enterprise funds were decreased by \$227,693, \$138,345, \$154,223, \$1,237, and \$4,887, respectively, to properly record accrued payroll and compensated absences as of the beginning of the fiscal year.

The Downtown Development Authority discretely presented component unit was previously reported as a special revenue fund of the primary government. In addition to reclassifying this fund as a component unit, its beginning fund balance was decreased by \$1,394 to properly record accrued payroll as of the beginning of the fiscal year.

The net effect of these restatements was that beginning net assets of governmental activities was increased by \$152,020 and beginning net assets of business-type activities was decreased by \$526,385.

* * * * *

Combining and Individual Fund Statements and Schedules

CITY OF NILES, MICHIGAN
Combining Schedule of Balance Sheet Accounts
General Fund - By Activity
September 30, 2006

	Corporate Account	Tax Revolving Account	Tax Collection Account	Insurance Account	Total General Fund
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 2,104,396	\$ 2,427	\$ 51,508	\$ 313,716	\$ 2,472,047
Investments	2,133,006	416,131	-	-	2,549,137
Taxes receivable	334,699	-	-	-	334,699
Special assessments receivable	16,803	-	-	-	16,803
Other receivables	-	-	-	1,699	1,699
Due from other governments	297,198	-	-	-	297,198
Due from other funds	503,783	199	-	845	504,827
<u>TOTAL ASSETS</u>	\$ 5,389,885	\$ 418,757	\$ 51,508	\$ 316,260	\$ 6,176,410
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 112,272	\$ -	\$ -	\$ 33,311	\$ 145,583
Accrued and other liabilities	125,288	-	-	-	125,288
Due to other funds	164,547	2,238	51,508	-	218,293
Deferred revenue	2,966,326	-	-	-	2,966,326
 Total liabilities	 3,368,433	 2,238	 51,508	 33,311	 3,455,490
Fund balances:					
Unreserved, undesignated	2,021,452	416,519	-	282,949	2,720,920
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 5,389,885	\$ 418,757	\$ 51,508	\$ 316,260	\$ 6,176,410

CITY OF NILES, MICHIGAN
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
General Fund - By Activity
For the Year Ended September 30, 2006

	Corporate Account	Tax Revolving Account	Tax Collection Account	Insurance Account	Total General Fund
Revenues					
Property taxes	\$ 3,567,729	\$ 154,814	\$ 3,814	\$ -	\$ 3,726,357
Special assessments	-	6,656	-	-	6,656
Intergovernmental	1,494,982	-	-	-	1,494,982
Charges for services	1,012,642	-	-	-	1,012,642
Licenses and permits	18,345	-	-	-	18,345
Fines and forfeitures	68,814	-	-	-	68,814
Investment earnings	105,797	22,078	-	11,984	139,859
Other	40,314	-	-	1,515,958	1,556,272
Total revenues	6,308,623	183,548	3,814	1,527,942	8,023,927
Expenditures					
Current:					
General government	1,346,382	7,348	-	1,701,275	3,055,005
Public safety	3,469,144	-	-	-	3,469,144
Public works	125,805	-	-	-	125,805
Highways and streets	988,098	-	-	-	988,098
Community development	78,227	-	-	-	78,227
Recreation and culture	210,302	-	-	-	210,302
Debt service:					
Principal	59,878	-	-	-	59,878
Interest and fiscal charges	24,096	-	-	-	24,096
Total expenditures	6,301,932	7,348	-	1,701,275	8,010,555
Revenues over (under) expenditures	6,691	176,200	3,814	(173,333)	13,372
Other financing sources					
Proceeds from sale of capital assets	42,136	-	-	-	42,136
Transfers in	226,432	-	-	117,501	343,933
Transfers out	(172,058)	(200,000)	-	-	(372,058)
Total other financing sources (uses)	96,510	(200,000)	-	117,501	14,011
Net change in fund balances	103,201	(23,800)	3,814	(55,832)	27,383
Fund balances, beginning of year, as restated	1,918,251	440,319	(3,814)	338,781	2,693,537
Fund balances, end of year	\$ 2,021,452	\$ 416,519	\$ -	\$ 282,949	\$ 2,720,920

CITY OF NILES, MICHIGAN
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
General Fund - By Activity
For the Year Ended September 30, 2006

	Corporate Account		
	Original/ Final Budget	Actual	Over (Under) Budget
Revenues			
Property taxes	\$ 3,637,609	\$ 3,567,729	\$ (69,880)
Special assessments	-	-	-
Intergovernmental	1,595,500	1,494,982	(100,518)
Charges for services	998,743	1,012,642	13,899
Licenses and permits	19,800	18,345	(1,455)
Fines and forfeitures	60,100	68,814	8,714
Investment earnings	50,000	105,797	55,797
Other	23,000	40,314	17,314
Total revenues	6,384,752	6,308,623	(76,129)
Expenditures			
Current:			
General government	1,505,528	1,346,382	(159,146)
Public safety	3,481,479	3,469,144	(12,335)
Public works	161,500	125,805	(35,695)
Highways and streets	977,500	988,098	10,598
Community development	83,897	78,227	(5,670)
Recreation and culture	232,967	210,302	(22,665)
Debt service:			
Principal	59,904	59,878	(26)
Interest and fiscal charges	24,096	24,096	-
Total expenditures	6,526,871	6,301,932	(224,939)
Revenues over (under) expenditures	(142,119)	6,691	148,810
Other financing sources			
Proceeds from sale of capital assets	2,000	42,136	40,136
Transfers in	245,119	226,432	(18,687)
Transfers out	(105,000)	(172,058)	(67,058)
Total other financing sources (uses)	142,119	96,510	(45,609)
Net change in fund balances	-	103,201	103,201
Fund balances, beginning of year	1,918,251	1,918,251	-
Fund balances, end of year	\$ 1,918,251	\$ 2,021,452	\$ 103,201

Tax Revolving Account			Tax Collection Account		
Original/ Final Budget	Actual	Over (Under) Budget	Original/ Final Budget	Actual	Over (Under) Budget
\$ 113,000	\$ 154,814	\$ 41,814	\$ -	\$ 3,814	\$ 3,814
3,500	6,656	3,156	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
7,500	22,078	14,578	-	-	-
-	-	-	-	-	-
124,000	183,548	59,548	-	3,814	3,814
18,500	7,348	(11,152)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
18,500	7,348	(11,152)	-	-	-
105,500	176,200	70,700	-	3,814	3,814
-	-	-	-	-	-
-	-	-	-	-	-
(200,000)	(200,000)	-	-	-	-
(200,000)	(200,000)	-	-	-	-
(94,500)	(23,800)	70,700	-	3,814	3,814
440,319	440,319	-	(3,814)	(3,814)	-
\$ 345,819	\$ 416,519	\$ 70,700	\$ (3,814)	\$ -	\$ 3,814

CITY OF NILES, MICHIGAN
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Concluded)
General Fund - By Activity
For the Year Ended September 30, 2006

	Insurance Account		
	Original/ Final Budget	Actual	Over (Under) Budget
Revenues			
Property taxes	\$ -	\$ -	\$ -
Special assessments	-	-	-
Intergovernmental	-	-	-
Charges for services	-	-	-
Licenses and permits	-	-	-
Fines and forfeitures	-	-	-
Investment earnings	1,000	11,984	10,984
Other	1,406,700	1,515,958	109,258
Total revenues	1,407,700	1,527,942	120,242
Expenditures			
Current:			
General government	1,512,700	1,701,275	188,575
Public safety	-	-	-
Public works	-	-	-
Highways and streets	-	-	-
Community development	-	-	-
Recreation and culture	-	-	-
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	1,512,700	1,701,275	188,575
Revenues over (under) expenditures	(105,000)	(173,333)	(68,333)
Other financing sources			
Proceeds from sale of capital assets	-	-	-
Transfers in	105,000	117,501	12,501
Transfers out	-	-	-
Total other financing sources (uses)	105,000	117,501	12,501
Net change in fund balances	-	(55,832)	(55,832)
Fund balances, beginning of year	338,781	338,781	-
Fund balances, end of year	\$ 338,781	\$ 282,949	\$ (55,832)

Total General Fund		
Original/ Final Budget	Actual	Over (Under) Budget
\$ 3,750,609	\$ 3,726,357	\$ (24,252)
3,500	6,656	3,156
1,595,500	1,494,982	(100,518)
998,743	1,012,642	13,899
19,800	18,345	(1,455)
60,100	68,814	8,714
58,500	139,859	81,359
1,429,700	1,556,272	126,572
7,916,452	8,023,927	107,475
3,036,728	3,055,005	18,277
3,481,479	3,469,144	(12,335)
161,500	125,805	(35,695)
977,500	988,098	10,598
83,897	78,227	(5,670)
232,967	210,302	(22,665)
59,904	59,878	(26)
24,096	24,096	-
8,058,071	8,010,555	(47,516)
(141,619)	13,372	154,991
2,000	42,136	40,136
350,119	343,933	(6,186)
(305,000)	(372,058)	(67,058)
47,119	14,011	(33,108)
(94,500)	27,383	121,883
2,693,537	2,693,537	-
\$ 2,599,037	\$ 2,720,920	\$ 121,883

CITY OF NILES, MICHIGAN
Detailed Schedule of Expenditures - Budget and Actual
General Fund (Corporate Account)
For the Year Ended September 30, 2006

	Original/ Final Budget	Actual	Over (Under) Budget
Expenditures			
General government:			
Council	\$ 131,600	\$ 146,741	\$ 15,141
Administrator	124,200	122,964	(1,236)
Assessor	93,018	94,346	1,328
Legal	82,100	52,003	(30,097)
Clerk	107,553	82,137	(25,416)
Treasurer	133,200	129,176	(4,024)
Management	230,757	235,381	4,624
Building maintenance	356,300	335,972	(20,328)
Contingency	20,000	-	(20,000)
Insurance	173,000	147,514	(25,486)
Other	53,800	148	(53,652)
Total general government	<u>1,505,528</u>	<u>1,346,382</u>	<u>(159,146)</u>
Public safety:			
Police	2,410,870	2,381,014	(29,856)
Fire	1,062,709	1,085,693	22,984
Emergency operations center	7,900	2,437	(5,463)
Total public safety	<u>3,481,479</u>	<u>3,469,144</u>	<u>(12,335)</u>
Public works:			
Leaf pick-up	75,100	44,565	(30,535)
Tree trimming	51,000	47,018	(3,982)
Tree removal	35,400	34,222	(1,178)
Total public works	<u>161,500</u>	<u>125,805</u>	<u>(35,695)</u>
Highways and streets	<u>977,500</u>	<u>988,098</u>	<u>10,598</u>
Community development:			
Planning	<u>83,897</u>	<u>78,227</u>	<u>(5,670)</u>

continued...

CITY OF NILES, MICHIGAN
Detailed Schedule of Expenditures - Budget and Actual (Concluded)
General Fund (Corporate Account)
For the Year Ended September 30, 2006

	Original/ Final Budget	Actual	Over (Under) Budget
Expenditures (concluded)			
Recreation and culture:			
Recreation	\$ 155,200	\$ 131,962	\$ (23,238)
Museum	77,767	78,340	573
Total public works	<u>232,967</u>	<u>210,302</u>	<u>(22,665)</u>
Debt service:			
Principal	59,904	59,878	(26)
Interest	24,096	24,096	-
Total public works	<u>84,000</u>	<u>83,974</u>	<u>(26)</u>
Total expenditures	<u><u>\$ 6,526,871</u></u>	<u><u>\$ 6,301,932</u></u>	<u><u>\$ (224,939)</u></u>

CITY OF NILES, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2006

	Special Revenue Funds				
	Major Streets	Local Streets	Building Department	Community Development Grants and Loans	Downtown Revolving Loans
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 45,716	\$ 152,341	\$ 8,560	\$ 538	\$ 23,069
Investments	-	-	-	-	-
Taxes receivable	-	-	-	-	-
Loans receivable	-	-	-	-	16,105
Interest receivable	-	-	-	-	180
Other receivables	-	-	-	-	-
Due from other governments	111,295	38,144	-	-	-
Due from other funds	644	127	-	40,135	40,210
<u>TOTAL ASSETS</u>	\$ 157,655	\$ 190,612	\$ 8,560	\$ 40,673	\$ 79,564
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 354	\$ 257	\$ 2,895	\$ -	\$ -
Accrued and other liabilities	1,457	1,392	3,030	-	-
Due to other funds	40,794	24,316	-	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	42,605	25,965	5,925	-	-
Fund balances					
Reserved for long-term receivables	-	-	-	-	16,105
Unreserved, undesignated	115,050	164,647	2,635	40,673	63,459
Total fund balances	115,050	164,647	2,635	40,673	79,564
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 157,655	\$ 190,612	\$ 8,560	\$ 40,673	\$ 79,564

Special Revenue Funds					Debt Service	Capital Projects Funds	
Community Development Housing	HUD Entitlement Program	Economic Development Grants and Loans	Industrial Park	Dial-A-Ride Transportation	Building Authority	Capital Improvement	Equipment Replacement
\$ 116,291	\$ 1,034	\$ 394,938	\$ 30,082	\$ 328,024	\$ -	\$ 13,839	\$ 24,005
-	-	-	-	-	-	-	-
-	-	-	-	10,871	-	-	-
-	-	281,676	70,000	-	-	-	-
-	-	3,436	-	-	-	-	-
100,000	-	-	-	-	-	-	-
-	186,290	-	-	3,965	-	-	-
387	-	9,311	44,147	7,895	-	40,179	284
<u>\$ 216,678</u>	<u>\$ 187,324</u>	<u>\$ 689,361</u>	<u>\$ 144,229</u>	<u>\$ 350,755</u>	<u>\$ -</u>	<u>\$ 54,018</u>	<u>\$ 24,289</u>
\$ -	\$ 23,423	\$ 58	\$ -	\$ 51,775	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
210,322	163,901	-	-	6,299	-	-	-
-	-	-	-	14,120	-	-	-
<u>210,322</u>	<u>187,324</u>	<u>58</u>	<u>-</u>	<u>72,194</u>	<u>-</u>	<u>-</u>	<u>-</u>
100,000	-	281,676	70,000	-	-	-	-
(93,644)	-	407,627	74,229	278,561	-	54,018	24,289
<u>6,356</u>	<u>-</u>	<u>689,303</u>	<u>144,229</u>	<u>278,561</u>	<u>-</u>	<u>54,018</u>	<u>24,289</u>
<u>\$ 216,678</u>	<u>\$ 187,324</u>	<u>\$ 689,361</u>	<u>\$ 144,229</u>	<u>\$ 350,755</u>	<u>\$ -</u>	<u>\$ 54,018</u>	<u>\$ 24,289</u>

continued...

CITY OF NILES, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds (Concluded)
September 30, 2006

	<u>Capital Projects Funds</u>		<u>Permanent Fund</u>	
	<u>Sewer Maintenance</u>	<u>Local Improvement Revolving</u>	<u>Cemetery Perpetual Care</u>	<u>Total Nonmajor Governmental Funds</u>
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 39,402	\$ 52,413	\$ 1,261	\$ 1,231,513
Investments	-	-	799,252	799,252
Taxes receivable	-	-	-	10,871
Loans receivable	-	-	-	367,781
Interest receivable	-	-	-	3,616
Other receivables	-	-	-	100,000
Due from other governments	-	-	-	339,694
Due from other funds	16,274	2,413	17	202,023
	<hr/>	<hr/>	<hr/>	<hr/>
<u>TOTAL ASSETS</u>	<u>\$ 55,676</u>	<u>\$ 54,826</u>	<u>\$ 800,530</u>	<u>\$ 3,054,750</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 1,714	\$ -	\$ -	\$ 80,476
Accrued and other liabilities	3,998	-	-	9,877
Due to other funds	4,226	-	6,783	456,641
Deferred revenue	-	-	-	14,120
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	9,938	-	6,783	561,114
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances:				
Reserved for long-term receivables	-	-	-	467,781
Unreserved, undesignated	45,738	54,826	793,747	2,025,855
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	45,738	54,826	793,747	2,493,636
	<hr/>	<hr/>	<hr/>	<hr/>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 55,676</u>	<u>\$ 54,826</u>	<u>\$ 800,530</u>	<u>\$ 3,054,750</u>

CITY OF NILES, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2006

	Special Revenue Funds				
	Major Streets	Local Streets	Building Department	Community Development Grants and Loans	Downtown Revolving Loans
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	558,641	232,432	-	-	-
Charges for services	74,645	-	2,525	-	-
Licenses and permits	-	-	101,956	-	-
Investment earnings	6,585	1,636	191	1,474	3,248
Other	-	-	444	-	-
Total revenues	639,871	234,068	105,116	1,474	3,248
Expenditures					
Current:					
General government	-	-	-	-	-
Public works	-	-	-	-	-
Highways and streets	449,977	457,711	-	-	-
Transportation	-	-	-	-	-
Community development	-	-	145,261	493	2,212
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	449,977	457,711	145,261	493	2,212
Revenues over (under) expenditures	189,894	(223,643)	(40,145)	981	1,036
Other financing sources					
Proceeds from sale of capital assets	-	-	25	-	-
Transfers in	-	250,000	44,000	10,000	-
Transfers out	(250,000)	-	-	-	(10,000)
Total other financing sources (uses)	(250,000)	250,000	44,025	10,000	(10,000)
Net change in fund balances	(60,106)	26,357	3,880	10,981	(8,964)
Fund balances, beginning of year, as restated	175,156	138,290	(1,245)	29,692	88,528
Fund balances, end of year	\$ 115,050	\$ 164,647	\$ 2,635	\$ 40,673	\$ 79,564

Special Revenue Funds					Debt Service	Capital Projects Funds	
Community Development Housing	HUD Entitlement Program	Economic Development Grants and Loans	Industrial Park	Dial-A-Ride Transportation	Building Authority	Capital Improvement	Equipment Replacement
\$ -	\$ -	\$ -	\$ -	\$ 105,088	\$ -	\$ -	\$ -
2,000	391,883	-	-	464,747	-	-	-
-	-	-	-	98,410	53,670	-	-
-	-	-	-	-	-	-	-
4,694	-	22,694	2,921	10,376	-	2,123	1,530
-	-	-	-	522	-	-	24,500
6,694	391,883	22,694	2,921	679,143	53,670	2,123	26,030
-	-	-	-	-	-	-	132
-	-	-	-	-	-	-	-
-	-	-	-	-	-	31	-
-	-	-	-	731,146	-	-	-
68,332	391,883	390	59	-	-	-	-
-	-	-	-	-	30,000	-	-
-	-	-	-	-	23,670	-	-
68,332	391,883	390	59	731,146	53,670	31	132
(61,638)	-	22,304	2,862	(52,003)	-	2,092	25,898
-	-	6,003	-	-	-	-	-
10,447	-	-	-	-	-	-	-
-	-	(447)	-	-	-	-	(26,433)
10,447	-	5,556	-	-	-	-	(26,433)
(51,191)	-	27,860	2,862	(52,003)	-	2,092	(535)
57,547	-	661,443	141,367	330,564	-	51,926	24,824
\$ 6,356	\$ -	\$ 689,303	\$ 144,229	\$ 278,561	\$ -	\$ 54,018	\$ 24,289

continued...

CITY OF NILES, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Concluded)
Nonmajor Governmental Funds
For the Year Ended September 30, 2006

	<u>Capital Projects Funds</u>		<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Sewer Maintenance</u>	<u>Local Improvement Revolving</u>	<u>Cemetery Perpetual Care</u>	
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ 105,088
Intergovernmental	-	-	-	1,649,703
Charges for services	-	-	2,863	232,113
Licenses and permits	704	-	-	102,660
Investment earnings	2,140	2,066	25,584	87,262
Other	-	-	-	25,466
Total revenues	<u>2,844</u>	<u>2,066</u>	<u>28,447</u>	<u>2,202,292</u>
Expenditures				
Current:				
General government	-	29	10	171
Public works	221,198	-	-	221,198
Highways and streets	-	-	-	907,719
Transportation	-	-	-	731,146
Community development	1	-	-	608,631
Debt service:				
Principal	-	-	-	30,000
Interest and fiscal charges	-	-	-	23,670
Total expenditures	<u>221,199</u>	<u>29</u>	<u>10</u>	<u>2,522,535</u>
Revenues over (under) expenditures	<u>(218,355)</u>	<u>2,037</u>	<u>28,437</u>	<u>(320,243)</u>
Other financing sources				
Proceeds from sale of capital assets	-	-	-	6,028
Transfers in	221,198	-	-	535,645
Transfers out	-	-	(38,332)	(325,212)
Total other financing sources (uses)	<u>221,198</u>	<u>-</u>	<u>(38,332)</u>	<u>216,461</u>
Net change in fund balances	<u>2,843</u>	<u>2,037</u>	<u>(9,895)</u>	<u>(103,782)</u>
Fund balances, beginning of year, as restated	<u>42,895</u>	<u>52,789</u>	<u>803,642</u>	<u>2,597,418</u>
Fund balances, end of year	<u>\$ 45,738</u>	<u>\$ 54,826</u>	<u>\$ 793,747</u>	<u>\$ 2,493,636</u>

CITY OF NILES, MICHIGAN
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended September 30, 2006

	Major Streets			Local Streets		
	Original/ Final Budget	Actual	Over (Under) Budget	Original/ Final Budget	Actual	Over (Under) Budget
Revenues						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-	-
Intergovernmental	587,300	558,641	(28,659)	240,000	232,432	(7,568)
Charges for services	90,000	74,645	(15,355)	-	-	-
Licenses and permits	-	-	-	-	-	-
Investment earnings	1,500	6,585	5,085	200	1,636	1,436
Other	-	-	-	-	-	-
Total revenues	678,800	639,871	(38,929)	240,200	234,068	(6,132)
Expenditures						
Current:						
Highways and streets	473,600	449,977	(23,623)	488,700	457,711	(30,989)
Transportation	-	-	-	-	-	-
Community development	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	473,600	449,977	(23,623)	488,700	457,711	(30,989)
Revenues over (under) expenditures	205,200	189,894	(15,306)	(248,500)	(223,643)	24,857
Other financing sources						
Proceeds from sale of capital assets	-	-	-	-	-	-
Transfers in	-	-	-	250,000	250,000	-
Transfers out	(250,000)	(250,000)	-	-	-	-
Total other financing sources (uses)	(250,000)	(250,000)	-	250,000	250,000	-
Net change in fund balances	(44,800)	(60,106)	(15,306)	1,500	26,357	24,857
Fund balances, beginning of year, as restated	175,156	175,156	-	138,290	138,290	-
Fund balances, end of year	<u>\$ 130,356</u>	<u>\$ 115,050</u>	<u>\$ (15,306)</u>	<u>\$ 139,790</u>	<u>\$ 164,647</u>	<u>\$ 24,857</u>

Building Department			Community Development Grants and Loans			Downtown Revolving Loans		
Original/ Final Budget	Actual	Over (Under) Budget	Original/ Final Budget	Actual	Over (Under) Budget	Original/ Final Budget	Actual	Over (Under) Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
3,000	2,525	(475)	-	-	-	-	-	-
100,700	101,956	1,256	-	-	-	-	-	-
50	191	141	-	1,474	1,474	1,179	3,248	2,069
120	444	324	-	-	-	-	-	-
103,870	105,116	1,246	-	1,474	1,474	1,179	3,248	2,069
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
153,050	145,261	(7,789)	-	493	493	350	2,212	1,862
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
153,050	145,261	(7,789)	-	493	493	350	2,212	1,862
(49,180)	(40,145)	9,035	-	981	981	829	1,036	207
-	25	25	-	-	-	-	-	-
-	44,000	44,000	-	10,000	10,000	-	-	-
-	-	-	-	-	-	-	(10,000)	(10,000)
-	44,025	44,025	-	10,000	10,000	-	(10,000)	(10,000)
(49,180)	3,880	53,060	-	10,981	10,981	829	(8,964)	(9,793)
(1,245)	(1,245)	-	29,692	29,692	-	88,528	88,528	-
\$ (50,425)	\$ 2,635	\$ 53,060	\$ 29,692	\$ 40,673	\$ 10,981	\$ 89,357	\$ 79,564	\$ (9,793)

continued...

CITY OF NILES, MICHIGAN
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances - Budget and Actual (Concluded)
Nonmajor Special Revenue Funds
For the Year Ended September 30, 2006

	Community Development Housing			HUD Entitlement Program		
	Original/ Final Budget	Actual	Over (Under) Budget	Original/ Final Budget	Actual	Over (Under) Budget
Revenues						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-	-
Intergovernmental	-	2,000	2,000	-	391,883	391,883
Charges for services	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Investment earnings	-	4,694	4,694	-	-	-
Other	-	-	-	-	-	-
Total revenues	-	6,694	6,694	-	391,883	391,883
Expenditures						
Current:						
Highways and streets	-	-	-	-	-	-
Transportation	-	-	-	-	-	-
Community development	-	68,332	68,332	-	391,883	391,883
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	-	68,332	68,332	-	391,883	391,883
Revenues over (under) expenditures	-	(61,638)	(61,638)	-	-	-
Other financing sources						
Proceeds from sale of capital assets	-	-	-	-	-	-
Transfers in	-	10,447	10,447	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	10,447	10,447	-	-	-
Net change in fund balances	-	(51,191)	(51,191)	-	-	-
Fund balances, beginning of year, as restated	57,547	57,547	-	-	-	-
Fund balances, end of year	<u>\$ 57,547</u>	<u>\$ 6,356</u>	<u>\$ (51,191)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Economic Development Grants and Loans			Industrial Park			Dial-A-Ride Transportation		
Original/ Final Budget	Actual	Over (Under) Budget	Original/ Final Budget	Actual	Over (Under) Budget	Original/ Final Budget	Actual	Over (Under) Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 90,000	\$ 105,088	\$ 15,088
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	574,727	464,747	(109,980)
-	-	-	-	-	-	119,000	98,410	(20,590)
-	-	-	-	-	-	-	-	-
12,939	22,694	9,755	1,000	2,921	1,921	2,900	10,376	7,476
-	-	-	-	-	-	-	522	522
12,939	22,694	9,755	1,000	2,921	1,921	786,627	679,143	(107,484)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	810,800	731,146	(79,654)
162,500	390	(162,110)	-	59	59	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
162,500	390	(162,110)	-	59	59	810,800	731,146	(79,654)
(149,561)	22,304	171,865	1,000	2,862	1,862	(24,173)	(52,003)	(27,830)
-	6,003	6,003	-	-	-	1,500	-	(1,500)
-	-	-	-	-	-	-	-	-
-	(447)	(447)	-	-	-	-	-	-
-	5,556	5,556	-	-	-	1,500	-	(1,500)
(149,561)	27,860	177,421	1,000	2,862	1,862	(22,673)	(52,003)	(29,330)
661,443	661,443	-	141,367	141,367	-	330,564	330,564	-
\$ 511,882	\$ 689,303	\$ 177,421	\$ 142,367	\$ 144,229	\$ 1,862	\$ 307,891	\$ 278,561	\$ (29,330)

CITY OF NILES, MICHIGAN
Combining Statement of Net Assets
Nonmajor Enterprise Funds
September 30, 2006

	Cemetery	Airport	Plym Park Golf	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 60,802	\$ 146,443	\$ 30,794	\$ 238,039
Interest receivable	-	12	-	12
Due from other funds	7,758	2,343	448	10,549
Total current assets	<u>68,560</u>	<u>148,798</u>	<u>31,242</u>	<u>248,600</u>
Noncurrent assets:				
Capital assets not being depreciated	20,000	76,859	7,555	104,414
Capital assets being depreciated, net	15,007	81,437	109,218	205,662
Total noncurrent assets	<u>35,007</u>	<u>158,296</u>	<u>116,773</u>	<u>310,076</u>
Total assets	<u>103,567</u>	<u>307,094</u>	<u>148,015</u>	<u>558,676</u>
Liabilities				
Current liabilities:				
Accounts payable	194	107	17,904	18,205
Accrued and other liabilities	1,236	-	4,887	6,123
Total liabilities	<u>1,430</u>	<u>107</u>	<u>22,791</u>	<u>24,328</u>
Net Assets				
Invested in capital assets	35,007	158,296	116,773	310,076
Unrestricted	67,130	148,691	8,451	224,272
Total net assets	<u>\$ 102,137</u>	<u>\$ 306,987</u>	<u>\$ 125,224</u>	<u>\$ 534,348</u>

CITY OF NILES, MICHIGAN
Combining Statement of Revenues, Expenses
and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended September 30, 2006

	Cemetery	Airport	Plym Park Golf	Total
Operating revenues				
Charges for services	\$ 89,539	\$ -	\$ 107,555	\$ 197,094
Rent	-	35,942	49,934	85,876
Other	-	-	425	425
Total operating revenues	89,539	35,942	157,914	283,395
Operating expenses				
Other operations	146,755	29,234	169,962	345,951
Depreciation	8,461	13,863	22,150	44,474
Total operating expenses	155,216	43,097	192,112	390,425
Operating income (loss)	(65,677)	(7,155)	(34,198)	(107,030)
Non-operating revenues (expenses)				
Investment income	4,431	8,666	1,118	14,215
Income (loss) before transfers	(61,246)	1,511	(33,080)	(92,815)
Transfers in	38,332	558	-	38,890
Change in net assets	(22,914)	2,069	(33,080)	(53,925)
Net assets, beginning of year, as restated	125,051	304,918	158,304	588,273
Net assets, end of year	<u>\$ 102,137</u>	<u>\$ 306,987</u>	<u>\$ 125,224</u>	<u>\$ 534,348</u>

CITY OF NILES, MICHIGAN
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended September 30, 2006

	Cemetery	Airport	Plym Park Golf	Total
Cash flows from operating activities				
Cash received from customers and others	\$ 88,863	\$ 34,350	\$ 157,655	\$ 280,868
Cash payments to suppliers for goods and services	(74,123)	(25,909)	(64,332)	(164,364)
Cash payments to employees	(72,856)	(3,819)	(106,456)	(183,131)
Net cash provided (used) by operating activities	(58,116)	4,622	(13,133)	(66,627)
Cash flows from investing activities				
Investment income	4,431	8,666	1,118	14,215
Cash flows from non-capital financing activities				
Transfers from other fund	38,332	558	-	38,890
Net increase (decrease) in cash and cash equivalents	(15,353)	13,846	(12,015)	(13,522)
Cash and cash equivalents, beginning of year	76,155	132,597	42,809	251,561
Cash and cash equivalents, end of year	\$ 60,802	\$ 146,443	\$ 30,794	\$ 238,039
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (65,677)	\$ (7,155)	\$ (34,198)	\$ (107,030)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	8,461	13,863	22,150	44,474
Changes in assets and liabilities:				
Due from other funds	(676)	(1,592)	(259)	(2,527)
Accounts payable	(223)	(494)	(826)	(1,543)
Accrued and other liabilities	(1)	-	-	(1)
Net cash provided (used) by operating activities	\$ (58,116)	\$ 4,622	\$ (13,133)	\$ (66,627)

CITY OF NILES, MICHIGAN
Statement of Fiduciary Assets and Liabilities
Agency Funds
September 30, 2006

	<u>Trust and Agency</u>	<u>Downtown Development Authority</u>	<u>Total</u>
Assets			
Cash and cash equivalents	<u>\$ 644,399</u>	<u>\$ 10,147</u>	<u>\$ 654,546</u>
Liabilities			
Due to other governments	<u>\$ 644,399</u>	<u>\$ 10,147</u>	<u>\$ 654,546</u>

CITY OF NILES, MICHIGAN
Statement of Net Assets / Governmental Fund Balance Sheet
Downtown Development Authority Component Unit
September 30, 2006

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets			
Cash and cash equivalents	\$ 4,253	\$ -	\$ 4,253
Taxes receivable	1,377	-	1,377
Accounts receivable	4,978	-	4,978
Capital assets being depreciated, net	<u>-</u>	<u>21,967</u>	<u>21,967</u>
Total assets	<u>10,608</u>	<u>21,967</u>	<u>32,575</u>
Liabilities			
Accounts payable	9,215	-	9,215
Accrued and other liabilities	<u>1,393</u>	<u>-</u>	<u>1,393</u>
Total liabilities	10,608	<u>-</u>	<u>10,608</u>
Fund balance			
Unreserved, undesignated	<u>-</u>	-	
Total liabilities and fund balance	<u><u>10,608</u></u>		
Net assets			
Invested in capital assets		21,967	21,967
Unrestricted		<u>-</u>	<u>-</u>
Total net assets		<u><u>\$ 21,967</u></u>	<u><u>\$ 21,967</u></u>

CITY OF NILES, MICHIGAN
Statement of Activities and Governmental Fund
Revenues, Expenditures, and Changes in Fund Balance
Downtown Development Authority Component Unit
For the Year Ended September 30, 2006

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenses			
Downtown development	\$ 122,128	\$ 3,629	\$ 125,757
General revenues			
Property taxes	75,985	-	75,985
Grants and contributions not restricted to specific programs	22,656	-	22,656
Unrestricted investment earnings	1,573	-	1,573
Total general revenues	100,214	-	100,214
Change in net assets	(21,914)	(3,629)	(25,543)
Net assets, beginning of year, as restated	21,914	25,596	47,510
Net assets, end of year	<u>\$ -</u>	<u>\$ 21,967</u>	<u>\$ 21,967</u>

**CITY OF NILES,
MICHIGAN**

SINGLE AUDIT

For the Year Ended September 30, 2006



REHMANN ROBSON

Certified Public Accountants

**CITY OF NILES, MICHIGAN
SINGLE AUDIT**

TABLE OF CONTENTS

YEAR ENDED SEPTEMBER 30, 2006

	<u>PAGE</u>
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	3-4
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	7-8

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

December 8, 2006

Members of the City Council
City of Niles, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **CITY OF NILES, MICHIGAN** as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **City of Niles, Michigan's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Niles, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

December 8, 2006

Members of the City Council
City of Niles, Michigan

Compliance

We have audited the compliance of the **CITY OF NILES, MICHIGAN** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The **City of Niles, Michigan's** major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs are the responsibility of the **City of Niles, Michigan's** management. Our responsibility is to express an opinion on the **City of Niles, Michigan's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about the **City of Niles, Michigan's** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **City of Niles, Michigan's** compliance with those requirements.

In our opinion, the **City of Niles, Michigan** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the *City of Niles, Michigan* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *City of Niles, Michigan's* internal control over compliance with requirements that could have a direct and material effect on major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to major federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Niles, Michigan* as of and for the year ended September 30, 2006, and have issued our report thereon dated December 8, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Lehmann Johnson", is centered on the page.

City of Niles
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2006

Federal/Pass-through Grantor Program Title	CFDA Number	Federal/ Pass-through Grantor Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Direct Program:			
Community Development Block Grant			
Program year 2005-2006	14.218		<u>\$ 391,893</u>
U.S. Department of Justice			
Direct Program:			
Local Law Enforcement Block Grant			
Program year 2005-2006	16.592		<u>3,050</u>
U.S. Department of Transportation			
Direct Programs:			
Federal Transit Administration -			
Capital, Planning, and Operating Assistance:			
Capital 2000	20.507	MI-90-X367-00	5,949
Capital 2002	20.507	MI-90-X398-00	12,000
Capital 2003	20.507	MI-90-X433-00	5,600
Operating	20.507		<u>168,096</u>
Total FTA Capital, Planning, and Operating Assistance			<u>191,645</u>
Total Expenditures of Federal Awards			<u><u>\$ 586,588</u></u>

CITY OF NILES, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Niles, Michigan (the "City"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The City of Niles reporting entity is defined in Note I of the City's basic financial statements.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note I of the City's basic financial statements.

* * * * *

CITY OF NILES, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

_____ yes X no

CITY OF NILES, MICHIGAN

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended September 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ yes X no

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – PRIOR YEAR FINDINGS

None

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

December 8, 2006

Members of the City Council
City of Niles, Michigan

We have audited the basic financial statements of the *City of Niles* as of and for the year ended September 30, 2006, and have issued our report thereon dated December 8, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated October 9, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by The City of Niles are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Niles during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the original cost and accumulated depreciation of infrastructure capital assets. We evaluated the key factors/assumptions used to develop the original cost and accumulated depreciation of the infrastructure capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the useful lives of depreciable capital assets – i.e., the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the City that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed several audit adjustments that, in our judgment, both individually and in the aggregate, had a significant effect on the City, all of which were recorded by the City, and are reflected in the financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter is intended for the use of the City Council and management of the City of Niles, the State of Michigan, and respective federal and state grantor agencies. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

CITY OF NILES, MICHIGAN
COMMENTS AND RECOMMENDATIONS
For the Year Ended September 30, 2006

During our audit we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters, and does not affect our report dated December 8, 2006, on the financial statements of the City of Niles, Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed these matters with City management and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the City in implementing the recommendations.

Journal Entries

As part of our audit, we examined various journal entries to comply with the Statement of Auditing Standards (SAS) 99 requirements. We noted that journal entries are prepared by multiple individuals and are not initialed or signed by someone other than the preparer as a check for journal entry completeness and accuracy. In order to enhance internal controls in this area, we recommend that all journal entries be initialed by an appropriate person for effective internal controls in this area.

* * * * *